JSC IC Allianz

International Financial Reporting Standards
Consolidated Financial Statements
and the Independent Auditor’s Report

31 December 2018

Contents

Independent Auditor's Report

To the Shareholders and Board of Directors of Insurance Company "Allianz" JSC:

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Insurance Company "Allianz" JSC (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Auditor's Professional Ethics Code and Auditor's Independence Rules that are relevant to our audit of the consolidated financial statements in the Russian Federation. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AO PricewaterhouseCoopers Audit

30 April 2019

Moscow, Russian Federation

M. Y. Bogomolova, certified auditor (licence no. 01-000194), AO PricewaterhouseCoopers Audit

Audited entity: Insurance Company "Allianz" JSC.

Registered by the Government Agency Moscow Registration Chamber on 14 January 1992 under No. 007.205.

Record made in the Unified State Register of Legal Entities on 21 August 2002 under State Registration Number 1027739095438.

30, Ozerkovskaya naberezhnaya str., Moscow 115184, Russia.

Independent auditor: AO PricewaterhouseCoopers Audit.

Registered by the Government Agency Moscow Registration Chamber on 28 February 1992 under No. 008.890.

Record made in the Unified State Register of Legal Entities on 22 August 2002 under State Registration Number 1027700148431.

Member of Self-regulated organization of auditors «Russian Union of auditors» (Association).

Principal Registration Number of the Record in the Register of Auditors and Audit Organizations – 11603050547.

Consolidated Statement of Financial Position at 31 December 2018

(in thousands of Russian Roubles)

	Notes	2018	2017 (restated)
Assets			
Cash and cash equivalents	4	243,993	660,666
Deposits with banks	5	2,961,052	1,470,229
Promissory notes and loans issued	7	214,127	807,476
Available-for-sale financial instruments	6	3,444,954	3,556,719
Receivables	8	2,000,443	1,851,603
Prepayments		64,980	35,625
Reinsurers' share of provision for unearned premiums	10	968,129	1,111,784
Reinsurers' share of loss provision	11	2,512,455	3,354,987
Deferred acquisition costs	20	86,109	293,432
Goodwill	13	130,081	130,082
Deferred tax assets	22	36,345	-
Other assets		21,708	144,440
Investments in associates	30	1,922	1,922
Investment property	9	266,008	345,934
Assets held for sale		-	306,547
Premises and equipment and intangible assets	9	436,875	545,816
Total assets		**13,389,181**	**14,617,262**
Liabilities			
Provision for unearned premiums	10	1,795,570	2,360,204
Loss provision	11	4,379,066	5,580,973
Payables	14	3,507,440	3,243,556
Deferred income tax liability	22	6,770	466
Other liabilities	15	167,780	611,463
Total liabilities		**9,856,626**	**11,796,662**
Equity			
Share capital	17	3,432,631	3,432,631
Share premium		933,361	933,361
Additional paid-in capital		9,866,487	9,866,487
Fair value reserve for available-for-sale financial instruments		116,659	171,054
Cumulative currency translation reserve		(523)	(523)
Accumulated deficit		(11,107,975)	(11,882,094)
Equity attributable to owners of the Company		**3,240,640**	**2,520,916**
Non-controlling interest	29	291,915	299,684
Total equity		**3,532,555**	**2,820,600**
Total liabilities and equity		**13,389,181**	**14,617,262**

Authorised for issue by the Management Board and signed on its behalf on 26 April 2019.

Акционерное общество Страховая компания «Альянс» * ОГРН 1027739095438 * Москва *

Philip Gronemeyer
Chief Executive Officer

Raouf Veliev
Deputy Chief Executive Officer – Chief Financial Officer

(in thousands of Russian Roubles)

	Notes	2018	2017 (restated)
INSURANCE			
Gross premiums written	18	4,936,770	4,705,282
Premiums ceded	18	(2,956,587)	(3,212,899)
Net premiums written		**1,980,183**	**1,492,383**
Change in unearned premium reserve		621,862	943,842
Change in reinsurers' share of unearned premium provision		(178,375)	(35,149)
Change in provision for unearned premiums, net	10, 18	443,487	908,693
Net premiums earned	18	**2,423,670**	**2,401,076**
Gross claims paid	18	(1,829 234)	(2,773,807)
Reinsurers' share of claims paid	18	861,768	1,618,274
Net premiums paid		**(967,466)**	**(1,155,533)**
Claims handling expenses	18	(225,896)	(394,753)
Change in loss provision		1,448,140	464,823
Change in reinsurers' share of loss provision		(1,064,563)	1,272,577
Change in loss provision, net of reinsurance	11, 18	383,577	1,737,400
Net claims incurred	18	**(809,785)**	**187,114**
Acquisition costs	20	(772,855)	(1,152,817)
Insurance operating expenses	21	(684,989)	(1,238,396)
Change in provision for impairment of insurance and reinsurance receivables	8	(83,032)	26,689
Insurance activity result		**73,009**	**223,666**
INVESTING ACTIVITIES			
Interest income	19	412,744	520,355
Net realized gain arising from financial instruments available for sale		1,774	33,989
Impairment of available-for-sale financial instruments	6	(44,960)	-
Other investment income		-	2,979
Investment operating expenses	21	(11,363)	(17,356)
Investment activity result		**358,195**	**539,967**
OTHER ACTIVITIES			
Other income	16	597,870	791,430
Net foreign exchange gain		197,705	33,191
Other expenses	21	(192,505)	(43,104)
Other activity result		**603,070**	**781,517**
Profit before other provisions charge and tax		**1,034,274**	**1,545,150**
Change in other provisions	15	(169,489)	(279,524)
Profit before tax		**864,785**	**1,265,626**
Income tax expense	22	(94,023)	(39,549)
Profit for the year		**770,762**	**1,226,077**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Fair value reserve for available-for-sale financial instruments:			
- net change in fair value		(71,735)	59,550
- net change in fair value transferred to profit or loss		(1,774)	(33,989)
Income tax related to components of other comprehensive income		14,702	(5,112)
Other comprehensive income		**(58,807)**	**20,449**
Total comprehensive income for the year		**711,955**	**1,246,526**
Profit, attributable to:			
- participants		774,119	1,234,569
- non-controlling interests		(3,357)	(8,492)
Total comprehensive income for the period, attributable to:			
- participants		719,724	1,254,223
- non-controlling interests		(7,769)	(7,697)

(in thousands of Russian Roubles)

	Notes	2018	2017 (restated)
Cash flows from operating activities			
Gross premiums received		5,557,767	5,661,607
Ceded premiums paid		(2,884,260)	(3,319,978)
Gross claims paid		(2,130,908)	(2,783,943)
Claims ceded received		852,695	1,449,112
Claims handling expenses paid		(176,397)	(278,605)
Acquisition costs paid		(828,986)	(837,254)
Commission income on reinsurance outwards received		488,138	735,894
Interest income received		424,257	551,971
Operating expenses paid		(1,037, 605)	(1,069,242)
Other income received		131,900	94,751
Other expenses paid		(128,147)	(28,580)
Income tax paid		(130,944)	(211,201)
Cash flows from/ (used in) operating activities before changes in operating assets and liabilities		**137,510**	**(35,468)**
(Increase) / decrease in operating assets			
Deposits with banks		(1,543,369)	2,776,232
Receivables		5,379	(6,951)
Prepayments		(7,878)	3,064
Other assets		10,000	(170)
Payables		(39,989)	(28,288)
Net cash (used in)/from operating activities		**(1,438,347)**	**2,708,419**
Cash flows from investing activities			
Acquisition of financial assets available for sale		(355,946)	(2,273,697)
Disposal of available-for-sale financial assets		216,521	2,374,444
Acquisition of property, equipment and intangible assets		(42,289)	(53,513)
Proceeds from disposal of premises and equipment, investment property and available-for-sale assets		512,657	6,436
Cash used to issue loans		(700,000)	(800,000)
Cash received from loans repaid		1,352,543	107
Group reorganization		-	3,350
Net cash from/(used in) investing activities		**983,486**	**(742,873)**
Cash flows from financing activities			
Dividends paid		-	(2,999,479)
Net cash used in financing activities		-	**(2,999,479)**
Effect of exchange rate changes on cash and cash equivalents		38,188	3,723
Net decrease in cash and cash equivalents		**(416,673)**	**(1,030,210)**
Cash and cash equivalents at the beginning of the year	4	660,666	1,690,876
Cash and cash equivalents at the end of the year	**4**	**243,993**	**660,666**

(in thousands of Russian Roubles)

	Equity attributable to owners of the Company								
	Share capital	Share premium	Additional paid-in capital	Fair value reserve for available-for-sale financial instruments	Cumulative currency translation reserve	Accumu-lated deficit	Total	Non-controlling interest	Total equity
Balance at 1 January 2018 (restated)	**3,432,631**	**933,361**	**9,866,487**	**171,054**	**(523)**	**(11,882,094)**	**2,520,916**	**299,684**	**2,820,600**
Total comprehensive income for the year	-	-	-	-	-	774,119	774,119	(3,357)	**770,762**
Profit for the year	-	-	-	-	-	-	-	-	**-**
Other comprehensive income	-	-	-	-	-	-	-	-	**-**
Items that are or may be reclassified subsequently to profit or loss	-	-	-	-	-	-	-	-	-
Net change in fair value of available-for-sale financial instruments, net of income tax	-	-	-	(52,976)	-	-	(52,976)	(4,412)	**(57,388)**
Net change in fair value of available-for-sale financial instruments, transferred to profit or loss from discontinued operations, net of income tax	-	-	-	(1,419)	-	-	(1,419)	-	**(1,419)**
Total comprehensive income for the year	**-**	**-**	**-**	**(54,395)**	**-**	**774,119**	**719,724**	**(7,769)**	**711,955**
Balance at 31 December 2018	**3,432,631**	**933,361**	**9,866,487**	**116,659**	**(523)**	**(11,107,975)**	**3,240,640**	**291,915**	**3,532,555**
Balance at 1 January 2017 (restated)	**3,432,631**	**933,361**	**9,866,487**	**151,400**	**(523)**	**(9,956,428)**	**4,426,928**	**-**	**4,426,928**
Total comprehensive income for the year									
Profit for the year	-	-	-	-	-	1,234,569	1,234,569	(8,492)	1,226,077
Other comprehensive income									
Items that are or may be reclassified subsequently to profit or loss									
Net change in fair value of available-for-sale financial instruments, net of income tax	-	-	-	46,845	-	-	46,845	795	47,640
Net change in fair value of available-for-sale financial instruments, transferred to profit or loss from discontinued operations, net of income tax	-	-	-	(27,191)	-	-	(27,191)	-	(27,191)
Total comprehensive income for the year	**-**	**-**	**-**	**19,654**	**-**	**1,234,569**	**1,254,223**	**(7,697)**	**1,246,526**
Transactions with owners of the Company									
Group reorganization (Note 28)	-	-	-	-	-	**(160,756)**	**(160,756)**	307,381	146,625
Dividends paid	-	-	-	-	-	(2,999,479)	(2,999,479)	-	(2,999,479)
Balance at 31 December 2017 (restated)	**3,432,631**	**933,361**	**9,866,487**	**171,054**	**(523)**	**(11,882,094)**	**2,520,916**	**299,684**	**2,820,600**

1 Introduction

Organization and operations

These consolidated financial statements include the financial statements of Insurance Company "Allianz" JSC (JSC IC Allianz or the Company) and its subsidiaries. The Company and its subsidiaries together are referred to as the Group.

The principal activity of the Group is the provision of insurance for air transport, inland and water transport, cargo, individuals and legal entities' property, liability, accident insurance (including mortgage borrowers' accident insurance), financial risks, medical and transport vehicles' insurance.

The Company was registered in the Russian Federation in on 14 January 1992 in the form of a joint-stock company. The Company is registered at the following address: Russia, 115184, Moscow, Ozerkovskaya Naberezhnaya, 30.

As at 31 December 2018 and 2017, Allianz New Europe Holding GmbH, an international insurance company (Hietzinger Kai 101-105, Vienna, 1130, Austria) held 99.9994% of shares in JSC IC Allianz, and 0.0006% of its stock was held by Allianz SE (Germany). As at 31 December 2018 and 31 December 2017, Allianz New Europe Holding GmbH is 100%-controlled by Allianz SE (Germany), a worldwide insurance company, which has publicly available financial statements.

As at 31 December 2018, the Company has 2 branches (2017: 2 branches) within the Russian Federation and its subsidiaries have 9 branches (2017: 9 branches).

As at 31 December 2018, the Company's headcount was 859 employees (31 December 2017: 1,047 employees).

These consolidated financial statements are presented in Russian roubles. All amounts in the consolidated financial statements have been rounded to the nearest whole number in thousands of Russian Roubles.

Business environment of the Group

The Group's operations are primarily located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy continues to be negatively impacted by ongoing political tension in the region and international sanctions against certain Russian companies and individuals. Firm oil prices, low unemployment and rising wages supported a modest growth of the economy in 2018. The financial markets continue to be volatile. The operating environment has a significant impact on the Group's operations and financial position.

During the year ended 31 December 2018, the official USD exchange rate to Russian rouble set by the Bank of Russia changed from USD 1 = RR 57.6 to USD 1 = RR 69.5, and the Russian rouble to Euro rate changed from EUR 1 = RR 68.9 to EUR 1 = RR 79.4. The key refinancing interest rate of the Bank of Russia at 31 December 2018 was 7.75% per annum and changed during 2018 from 7.25% to 7.75%. The RTS stock exchange index decreased from 1,154 to 1,069 points, and the index fluctuations within 2018 ranged from 1,033 points to 1,339 points.

Management is taking necessary measures to ensure sustainability of the Group's operations. However, the future effects of the current economic situation are difficult to predict and management's current expectations and estimates could differ from actual results.

2 Basis of Preparation

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") for the year ended 31 December 2018.

(in thousands of Russian Roubles)

2 Basis of Preparation (Continued)

Corrections of errors

The Group made the following adjustments to the comparatives in its 2018 consolidated financial statements to reflect the correction of previous years errors:

(i) As at 31 December 2017 and 1 January 2017, the Group did not fully accrue certain provisions – estimated liabilities that took place as of these reporting dates. To correct the errors made in the previous years, the Group additionally accrued such provisions – estimated liabilities as of the said reporting dates.

(ii) In the 2017 consolidated statement of profit or loss and other comprehensive income, the Group erroneously presented a change in provision for unearned premiums and loss provisions on a net basis. Starting from the 2018 consolidated financial statements, the Group separately presented the reinsurers' share of the above provisions.

(iii) The Group identified some technical errors in the calculation of amounts with certain items in the 2017 consolidated statement of cash flows. The amounts of adjustments to the items of the consolidated statement of cash flows are summarised in the table below.

The effect of reclassification of comparatives on the consolidated statement of financial position as at 31 December 2017 is summarised below:

		As originally presented	Adjustment	Amount after adjustments
LIABILITIES:		-	-	-
Payables	i	3,117,151	126,405	3,243,556
Total liabilities		**11,670,257**	**126,405**	**11,796,662**
EQUITY:		**-**	**-**	**-**
Accumulated deficit	i	(11,755,689)	(126,405)	(11,882,094)
Total capital		**2,947,005**	**(126,405)**	**2,820,600**

The effect of reclassification of comparatives on the consolidated statement of financial position as at 1 January 2017 is summarised below:

		As originally presented	Adjustment	Amount after adjustments
LIABILITIES:		-	-	-
Payables	i	3,414,875	78,569	3,493,444
Total liabilities		**13,288,216**	**78,569**	**13,366,785**
EQUITY:		**-**	**-**	**-**
Accumulated deficit	i	(9,877,859)	(78,569)	(9,956,428)
Total capital		**4,505,497**	**(78,569)**	**4,426,928**

The effect of reclassification of comparatives on the consolidated statement of profit or loss and other comprehensive income for 2017 is summarised below:

		As originally presented	Adjustment	Amount after adjustments
Change in loss provision, net	ii	1,737,400	(1,737,400)	-
Change in loss provisions, gross	ii	-	464,823	464,823
Change in reinsurers' share of loss reserve	ii	-	1,272,577	1,272,577
Change in provision for unearned premiums, net	ii	908,693	(908,693)	-
Change in unearned premium reserve, gross	ii	-	943,842	943,842
Change in reinsurers' share of unearned premiums reserve	ii	-	(35,149)	(35,149)
Insurance operating expenses	i	(1,190,560)	(47,836)	(1,238,396)
Profit for the year		**1,273,913**	**(47,836)**	**1,226,077**
Total comprehensive income for the year		**1,294,362**	**(47,836)**	**1,246,526**

(in thousands of Russian Roubles)

2 Basis of Preparation (Continued)

The effect of reclassification of comparatives on the consolidated statement of cash flows for 2017 is summarised below:

		As originally presented	Adjustment	Amount after adjustments
Gross premiums received	iii	5,198,538	463,069	5,661,607
Ceded premiums paid	iii	(3,234,631)	(85,347)	(3,319,978)
Gross claims paid	iii	(2,701,219)	(82,724)	(2 783 943)
Claims handling expenses paid	iii	(393,893)	115,288	(278,605)
Acquisition costs paid	iii	(1,163,048)	325,794	(837,254)
Interest income received	iii	527,423	24,548	551,971
Operating expenses paid	iii	(1,068,278)	(964)	(1,069,242)
Other income received	iii	310,631	(215,880)	94,751
Other expenses paid	iii	(33,311)	4,731	(28,580)
Cash flows from/ (used in) operating activities before changes in operating assets and liabilities	iii	**(583,982)**	**548,514**	**(35,468)**
Deposits with banks	iii	3,274,255	(498,023)	2,776,232
Receivables	iii	(8,946)	1,995	(6,951)
Prepayments	iii	5,163	(2,099)	3,064
Payables	iii	3,635	(31,923)	(28,288)
Net cash (used in)/from operating activities	iii	**2,689,955**	**18,464**	**2,708,419**
Acquisition of financial assets available for sale	iii	(2,699,527)	425,830	(2,273,697)
Disposal of available-for-sale financial assets	iii	2,825,765	(451,321)	2,374,444
Acquisition of property, equipment and intangible assets	iii	(60,569)	7,056	(53,513)
Proceeds from disposal of premises and equipment, investment property and available-for-sale assets	iii	6,465	(29)	6,436
Net cash from/(used in) investing activities	iii	**(724,409)**	**(18,464)**	**(742,873)**

3 Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the initial recognition of financial instruments based on fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Subsidiaries. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The acquisition method of accounting is used to account for acquisition of subsidiaries. The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition, plus costs directly attributable to the acquisition. The Group measures goodwill as the fair value of the consideration transferred(including the fair value of any previously-held equity interest in the acquiree) and the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Group.

Non-controlling interests is that part of the net results and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interests are recorded within equity.

3 Significant Accounting Policies (Continued)

In translating the financial statements of a foreign operation into the Group's presentation currency for incorporation in the consolidated financial statements, the Group applies IAS 21 The Effects of Changes in Foreign Exchange Rates as follows:

- assets and liabilities, both monetary and non-monetary, of the foreign operation are translated into the Group's presentation currency at the closing exchange rate of the Central Bank of Russian Federation;
- income and expense items of the foreign operation are translated into the Group's presentation currency at exchange rates of the Central Bank of Russian Federation at the approximate dates of the transactions;
- all resulting exchange differences are classified within equity as foreign exchange translation reserve until the disposal of the investment;
- on disposal of the investment in the foreign operation, the foreign exchange translation reserve is transferred to profit or loss.

Associates. Associates (note 30) are entities over which the Group has between 20% and 50% of the voting rights, or over which the Group has an ability to exercise significant influence, but which it does not control. Investments in associates are accounted for using the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognized in profit or loss, and its share of the post-acquisition other comprehensive income is recorded in other comprehensive income. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

When the Group' s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses unless the Group has incurred obligations or made payments on behalf of the associate. Where necessary, accounting policies used by associates have been changed to ensure consistency with the policies adopted by the Group.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of acquisition.

After control of an entity is obtained, changes in the parent's ownership interest that do not result in a loss of control are accounted for as equity transactions. Profit or loss is not recognized as a result of such transactions, and carrying amount of goodwill does not change.

At each reporting date, the Group estimates the recoverable amount of goodwill. A write down is made if the carrying amount exceeds the recoverable amount.

On acquisition, fair values of the acquiree's identifiable assets, liabilities and contingent liabilities are determined provisionally. Adjustments to those provisional values are recognized within twelve months of the acquisition date.

Merger of entities or businesses under common control. A merger of entities or businesses under common control is a merger in which all of the combining entities or businesses ultimately are controlled by the same party or parties both before and after the combination, and that control is not transitory. Assets and liabilities of the merger of businesses under common control are recognized in the consolidated financial statements as of the date of the merger using book value (carry-over basis) accounting. Comparative financial information is not restated.

Discontinued operations. A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

3 Significant Accounting Policies (Continued)

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative consolidated statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative period.

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Classification of financial instruments. The Group determines the classification of its financial assets at initial recognition. Financial assets are classified at initial recognition depending on their intended use and parameters.

Initial recognition of financial instruments. Financial assets at fair value through profit or loss are initially recorded at fair value. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Depending on their classification financial instruments are carried at fair value, cost, or amortised cost. The valuation techniques are described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is quoted price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial instruments for which external market pricing information is not available.

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period. Refer to Note 37.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method.

3 Significant Accounting Policies (Continued)

Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount, which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Cash and cash equivalents. Cash and cash equivalents are items, which can be converted into cash within one business day and includes cash on hand and in banks and has no restrictions on its availability. All short-term bank placements are included in deposits with banks.

Deposits with banks, promissory notes and loans issued. Deposits with banks, promissory notes and loans issued are loans issued by the Group by providing money directly to the counterparties. All deposits with banks, promissory notes and loans issued are recorded when cash is advanced to counterparties. Initially they are recorded at fair value, and subsequently are measured at amortized cost, using the effective interest method, less allowance for impairment.

Interest income on deposits with banks, promissory notes and loans issued is recognized in profit or loss as interest income using the effective interest rate method.

Financial assets and liabilities at fair v'a/oe through profit or loss. Financial assets and liabilities at fair value through profit or loss represent securities acquired principally for the purpose of selling them in the near term, or are a part of portfolio of identified financial instruments that are managed together and for which there is evidence of a recent and actual pattern of short-term profit taking or securities that upon initial recognition are designated by the Group at fair value through profit or loss. Financial assets and liabilities at fair value through profit or loss are initially recorded and subsequently measured at fair value. Changes in fair value of financial assets and liabilities at fair value through profit or loss are recognized in profit or loss.

Available-for-sale financial instruments. This classification includes investment securities which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Financial assets available for sale are carried at fair value. Interest income on debt securities available for sale is calculated using the effective interest method, and recognised in profit or loss for the year.

Dividends on AFS equity instruments were recognised in profit or loss for the year when the Group’s right to receive payment was established and it was probable that the dividends would be collected. All other elements of changes in the fair value were recognised in other comprehensive income until the investment was derecognised or impaired, at which time the cumulative gain or loss was reclassified from other comprehensive income to profit or loss for the year.

Impairment losses were recognised in profit or loss for the year when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of investment securities AFS. A significant or prolonged decline in the fair value of an equity security below its cost was an indicator that it was impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – was reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments were not reversed and any subsequent gains were recognised in other comprehensive income.

3 Significant Accounting Policies (Continued)

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase could be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss for the year.

The Group obtains evidence of impairment of available-for-sale financial instruments and prepayments by applying methods and estimations that are the same as those applied to impairment analysis of financial assets carried at amortised cost (see below).

Derecognition of financial instruments. A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Receivables and prepayments. Receivables are accounted for on the accrual basis. Receivables consist of outstanding direct premiums due from policyholders, outstanding assumed premiums due from ceding companies, receivables due from claims ceded and other receivables. Accounts receivable are carried at amortised cost less provision for impairment.

Prepayments are recorded on the payment date and are charged to profit or loss when the services are provided. Prepayments include prepayments made under obligatory and voluntary medical insurance programs and other prepayments.

Promissory notes and loans issued. Promissory notes and loans issued are accounted for on the accrual basis and are carried at amortised cost less impairment provision. The Group obtains evidence of impairment of promissory notes and loans issued by applying methods and estimations that are the same as those applied to impairment analysis of financial assets carried at amortised cost (see below).

Impairment of financial assets at AC. At each reporting date the Group assesses if there are objective indicators that financial assets or prepayments are impaired. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment.

The primary factor that the Group considers in determining whether a financial asset is impaired is its overdue status. The following other principal criteria were also used to determine whether there was objective evidence that an impairment loss had occurred:

- any instalment was overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by the counterparty's financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

(in thousands of Russian Roubles)

3 Significant Accounting Policies (Continued)

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset in full or partly have been completed and the amount of the loss has been determined. Including in the reporting period when it was established that they could not be collected.

Non-financial assets. Other non-financial assets, except for deferred taxes, are assessed at each reporting date for any indications of impairment. The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised when the carrying amount of an asset or its cash-generating unit, exceeds its recoverable amount.

All impairment losses in respect of non-financial assets are recognised in profit or loss and reversed only if there has been a change in the estimates used to determine the recoverable amount. Any impairment loss reversed is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Premises and equipment. Premises and equipment are stated at cost, restated to the equivalent purchasing power of the Russian Rouble as at 31 December 2002 for assets acquired prior to 1 January 2002, less accumulated depreciation and allowance for impairment, where required.

Construction in progress is carried at cost. Upon completion, assets are transferred to property, plant and equipment at their carrying amount. Construction in progress is not depreciated until the asset is available for use.

Result on disposal of premises and equipment is determined by reference to carrying amount and is recognized as profit or loss for the reporting period. Repairs and maintenance are recognized as expense in the period in which they are incurred.

Depreciation. Depreciation on premises and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives in accordance with the following rates of depreciation:

	2018	**2017**
Buildings and facilities	2.0-2.5% per annum	2.0-2.5% per annum
Office equipment	20% p.a.	20% p.a.
Computers	33% p.a.	33% p.a.

The *residual value* of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Costs of minor repairs and day-to-day maintenance are expensed when incurred. Costs of replacing major parts or components of premises and equipment items are capitalised, and the replaced part is retired.

At the end of each reporting period management assesses whether there is any indication of impairment of premises and equipment that are not carried at a restated cost. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss for the year (within other operating income or expenses).

3 Significant Accounting Policies (Continued)

Intangible assets. Intangible assets represent software licenses obtained by the Group and computer software development costs. Costs associated with maintaining computer software programs are recorded as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets.

Expenditure, which enhances or extends the performance of computer software beyond their original specifications is recorded as a capital improvement and added to the original cost of the software. Computer software development costs recorded as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 5 years.

At each reporting date the Group assesses whether there is any indication of impairment of intangible assets. If any such indication exists, the Group estimates the recoverable amount, which is determined as the higher of an asset's net selling price or its value in use. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount and the difference is charged to profit or loss. An impairment loss recognized for an asset in prior periods is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Investment property. Investment property is property held by the Group to earn rental income and for capital appreciation rather than for use in the supply of services or for administrative purposes in the ordinary course of business. Investment property is measured at cost (which includes transaction costs). Transfers between investment property and owner-occupied property do not change the carrying amount of the property transferred and they do not change the cost of that property for measurement.

Earned rental income is recorded in profit or loss within other income. Direct operating expenses (including repairs and maintenance) arising from investment property are recorded as incurred within other operating expenses related to investment activities within profit or loss.

Share capital. The share capital paid before 1 January 2003 is stated at inflation-adjusted cost. Contributions to share capital made after 1 January 2003 are recognized at cost.

Share premium. Share premium represents the excess of contributions to the share capital over the nominal value of shares issued.

Dividends. Dividends are recorded in equity in the period in which they are declared. Any dividends declared after the end of the reporting period and before the consolidated financial statements are authorised for issue, are disclosed in the subsequent events note. The statutory accounting reports of the Bank are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the current year net profit.

Classification of insurance contracts.

The Group issues contracts pursuant to which it assumes insurance risk or financial risk or both.

Insurance contracts are the contracts where one party (insurer) assumes a material insurance risk from the other party (policyholder) and agrees to pay the claim of policyholder if an agreed unforeseen event occurs in the future (insured event) that will have a negative impact on the policyholder. Such contracts may also transfer financial risk.

Insurance risk arises if the following uncertainties exist at the commencement of insurance contracts:

- whether the insured event will occur;
- the occurrence date of the insured event;
- the amount of loss on the insured event when occurred.

The Group classifies the contract as an insurance contract only if it bears material insurance risk.

3 Significant Accounting Policies (Continued)

For accounting purposes, an insurance or reinsurance contract is classified as a short-term agreement if its term is less than 12 months. Other contracts are classified as long-term agreements. To check the adequacy of liabilities formed under non-life insurance contracts, management also treats as long-term contracts any agreements whose term is less than 12 months, but which provide for the insurer's right to renew the contract under the same conditions as the current contract, or under any other formalised conditions.

Description of insurance products. The Group's principal business activities are:

- Insurance of air transport;
- Insurance of inland transport (including CASCO);
- Insurance of water transport;
- cargo insurance;
- Insurance of individuals or legal entities' property other than listed above;
- Accident insurance (including accident insurance of mortgage borrowers);
- Liability insurance (including mandatory insurance of third party liability of carriers (OILC) and of owners of hazardous facilities (OIHF));
- Travel insurance;
- Financial risk insurance.

Property and motor insurance ensure that Group's customers are paid compensation for the damage caused to their property. Clients are also indemnified for income losses caused by their inability to use an insured property in their economic activities as a result of the occurrence of an insured event (e.g. risk of business interruption).

Under aircraft and water transport insurance, the Group insures property interests of the policyholder associated with damage or complete loss of the insured property and the policyholder's legal obligations to provide compensation for harm to life, health or property of third parties if such harm was caused in the course of business.

Cargo insurance – the Group insures property interests of the insured related to possession, use and disposal of cargo as a result of its loss or damage.

Accident insurance (including mortgage borrowers' accident insurance) is designed to provide financial protection to the Group's clients if the insured person becomes temporary or permanently disabled as a result of accident and/or disease and in case of his/her death, as well as financial support to the insured person's dependants or his/her designated beneficiaries.

Under travel insurance the Group pays compensation of medical or other extraordinary expenses of the insured person incurred during his (her) stay outside his (her) permanent residence.

Liability insurance protects the Group's customers against the risk of causing harm to third parties as a result of their activities. Liability insurance of the Group's clients could be provided against damage to third parties' health and/or life ("physical harm") or property ("property harm"). Only those policy holder's property interests are insured, which are in line with the Russian legislation and are related to policyholder's obligations arising from damage caused to third parties in the course of the policyholder's activities specified in the insurance contract. The Group provides obligatory insurance of third party liability of carriers (OILC) and of owners of hazardous facilities (OIHF). OILC protects passengers of all means of transportation (except for taxi and underground) from risks of injuries during their way, loss or damage of their luggage, passengers' death. The object of insurance under OIHF is third party liability of owners of hazardous facilities which may arise as a result of an accident, if any harm is caused to health and property of third parties and to environment. With the purpose of execution of insurance contracts of OILC and OIHF the Group in accordance with legal requirements joined the national union of liability insurers (NULI) and is a member of Reinsurance Pools for these lines of business. Insurance amounts and insurance rates under obligatory types of insurance are regulated by respective Federal Laws.

3 Significant Accounting Policies (Continued)

Non-life insurance

Premiums written. Upon inception of a contract, premiums are recognized when written and are earned primarily on a pro-rata basis over the term of the related policy coverage. The earned portion of premiums written is recognized as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten. Outward reinsurance premiums are recognized as an expense in accordance with the pattern of reinsurance service provided.

Provision for unearned premiums. The unearned premium reserve (UPR) is set up at the time of assuming the insurance risk and then is recorded in income on a pro-rata basis over the term of the related insurance contracts. Unearned premium reserve represents the proportion of premiums written that relates to unexpired term of insurance contracts in force at the reporting date. UPR is recognised within liabilities on a gross basis.

Claims. The accounting treatment of expenses in the form of claims paid under insurance contracts depends on the form of settlements:

- Cash payments are recognised at the date of actual cash payment;
- Offsets of counter claims with the policyholder are recognised at the date of paying the remaining part of insurance compensation or the date of set-off agreement;
- Expenses on claims under inward reinsurance contracts are recognised on the date of actual payment or, in case of setting off (net settlements), on the date of the receipt of bordereau premiums and losses.

Loss provision. Loss provision represents outstanding claims provision (OCP), provision for losses incurred but not yet reported (IBNR) and estimates of claims handling expenses (loss adjustment expenses reserve). OCP is provided in respect of claims reported, but not settled as at the reporting date. The estimation is made on the basis of information received by the Group during investigation of insurance cases after the reporting date less subrogations and recoveries. IBNR is actuarially determined by the Group by line of business, and includes assumptions based on prior years' claims. The methods of determining such estimates and establishing the resulting provisions are continually reviewed and updated. Resulting adjustments are recognized as profit or loss as they arise. The loss provision is estimated on an undiscounted basis due to the relatively quick pattern of claims notification and payment. The provision for future loss handling expenses represents an estimate of future expenses (direct and indirect) relating to handling losses that have occurred by the reporting date.

Loss reserves are derecognised only when a claim is settled or the related liability is cancelled or expires.

Liability adequacy test. At each reporting date, liability adequacy tests are performed to ensure the adequacy of the insurance contract provisions net of deferred acquisition costs (DAC). In performing this test, current best estimates of future contractual cash flows and claims handling and administration expenses are used. When unearned premiums are insufficient to meet claims and expenses, which may be incurred after the reporting date the additional liability — unexpired risk reserve (URR) is recognized. To estimate the URR the Group uses historical experience and forward looking assumptions of ultimate loss ratios (including claims handling expenses) and the level of in-force portfolio maintenance expenses. URR is provided for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of contracts in force at the reporting date exceeds the provision for unearned premiums in relation to such contracts after the deduction of any deferred acquisition costs. URR is calculated by reference to individual line of business that are managed together.

The expected claims are calculated with regard to events that have occurred prior to the reporting date. Any changes in URR are immediately charged to profit or loss initially by writing off DAC and by subsequent establishing a provision for losses arising from liability adequacy tests.

3 Significant Accounting Policies (Continued)

Reinsurance. The Group assumes and cedes reinsurance in the normal course of business. Ceded reinsurance contracts do not relieve the Group from its obligations to policyholders. Reinsurance assets include balances due from reinsurance companies for paid claims, including claims handling expenses, and premiums ceded to the Group. As of each reporting date, assets related to reinsurance are subject to impairment testing. The procedure to identify impairment indicators and estimate the amount of impaired reinsurance assets is similar to the procedure to identify impairment indicators and estimate the amount of impaired insurance receivables. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance payables are obligations of the Group for the transfer of reinsurance premiums to reinsurers and of the Group's share in claims in respect of insurance cases reinsured by the Group. Reinsurance receivables and payables are offset where the legal right for such offset exists.

Reinsurers' share of loss provisions and unearned premium reserve (UPR) (reinsurers' share of insurance provisions) is calculated based on the share of risks ceded by the Group to reinsurance.

At each reporting date, the Group recalculates the reinsurers share of insurance provisions based on the amount of UPR, loss provisions and risks ceded to reinsurance as of the corresponding reporting date. According to the calculations results, the Group adjusts the reinsurers' share of insurance provisions, with the resulting change for the period recorded in the consolidated statement of profit or loss and other comprehensive income.

The reinsurers' share of UPR is assessed for each insurance contract based on the reinsurance contract's terms. The reinsurers' share in OCP is assessed for each claim based on the reinsurance contract's terms. The reinsurers' share in IBNR is assessed according to obligatory reinsurance programs.

Deferred acquisition costs. Acquisition costs, representing commissions, salaries to employees of selling divisions and certain other insurance expenses, which vary with and are incurred in connection with the acquisition or renewal of insurance policies, are deferred and amortized over the period in which the related written premiums are earned. Deferred acquisition costs are calculated separately for each line of business and are reviewed by line of business at the time of the policy issue and at the end of each reporting period to ensure they are recoverable based on future estimates.

Accounts payable. Payables are accounted for on the accrual basis and are carried at AC.

Acquisition income and deferred acquisition income. The Group receives commissions for ceding risks under existing insurance contracts to reinsurers.

Deferred acquisition income is amortised proportionally within the period of validity of relevant insurance contracts to ensure they conform with future cash flows from insurance premiums and disclosed in the consolidated statement of financial position within liabilities.

Taxation. Current taxation is provided for in accordance with Russian legislation currently in force. Income tax comprises current tax and changes in deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items of other comprehensive income or transactions with shareholders recognized directly in equity, in which case it is recognized within other comprehensive income or directly within equity. Current tax is calculated on the basis of the taxable profit for the period, using the tax rates enacted during the reporting period. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided, using the balance sheet method, for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted as at the reporting date. Deferred tax assets and liabilities are netted only within the individual companies of the Group, subject to any legal or regulatory restrictions to such offsetting. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3 Significant Accounting Policies (Continued)

Interest income and expenses, other income and expense recognition. Interest income and expense are recorded in profit or loss for all interest bearing instruments on an accrual basis using the effective interest method.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Other income is recognized in profit or loss when the related transactions are completed. Operating and other expenses are generally recorded on an accrual basis when the product is received or the service is provided. Portfolio and other management advisory and service fees are recorded based on the applicable service contracts.

Fee and commission income. The Group receives commissions for ceding premiums to reinsurers. This type of commission is recognized in profit or loss within the insurance activity section. Commission income from ceded reinsurance transactions that represent the recovery of acquisition costs reduces the applicable unamortized acquisition costs in such a manner that net acquisition costs are capitalized and charged to expenses in proportion to net revenue recognized. Amortization of deferred commission income on reinsurance outwards is in profit or loss within net acquisition costs.

The Group also provides customers with non-insurance related services, on which the Group does not assume insurance risk and earns commissions. These commissions are included in profit or loss within other activity result.

Functional currency and presentation currency. The functional currency for each of the Group's entities is determined as the currency of the primary economic environment in which the entity operates. The Russian Rouble (RR) is selected as the functional currency for the Company and other Group's entities domiciled in the Russian Federation. For Group entities domiciled outside the Russian Federation the currencies of the respective countries in which these entities are domiciled are selected as their functional currencies.

Foreign currency translation. Transactions in foreign currencies are translated to the functional currency of the relevant Group entity at the exchange rate at the date of the transaction. Cash assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the foreign exchange rate ruling at that date. The foreign currency gain or loss on monetary assets or liabilities is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for interest accrued using the effective interest rate and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the functional currency at the exchange rate at the date of the transaction

Foreign exchange differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments unless the difference is due to impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss.

Operating leases. Where the Group is the lessee, the total lease payments, including those on expected termination, are charged by the Group to the profit or loss on a straight-line basis over the period of the lease.

Provisions. Reserves – estimated liabilities are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

3 Significant Accounting Policies (Continued)

Staff costs and related contributions. Wages, salaries, contributions to the Russian Federation state pension fund, social insurance fund and fund for obligatory medical insurance, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. They are expensed as incurred and included into operating expenses and acquisition costs. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

Offsetting. Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (1) must not be contingent on a future event and (2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

Presentation of statement of financial position in order of liquidity. The Group does not have a clearly identifiable operating cycle and therefore does not present current and non-current assets and liabilities separately in the consolidated statement of financial position. Instead, assets and liabilities are presented in order of their liquidity. Refer to Note 23 for analysis of financial instruments by expected maturity.

Reclassifications in the consolidated financial statements after issue. The Group's shareholders and management have the power to amend the consolidated financial statements after issue.

Use of estimates and judgements

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Management also makes professional judgements and estimations in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause significant adjustments to the carrying amount of assets and liabilities within the next financial year are summarised below:

Significant insurance risk. Insurance risk is connected with an uncertainty in respect of the following matters at inception of the insurance contract: occurrence of the insurance event, date of occurrence of the insurance event, and the claim amount in respect of the occurred insurance event. Significance of insurance risk is dependent both on the probability of an insured event and the size of its potential effect.

An insurance risk is significant if, upon occurrence of an insured event, the Group will have to make significant additional payments in case of any scenario other than those which have no commercial substance (i.e. do not have a noticeable effect on the economics of the transaction). When a decision on the existence of a significant insurance risk is taken the following contractual cash flows calculated at the inception of the contract are analysed:

A. value of net contractual cash flow upon occurrence of an insured event;

B. value of net contractual cash flow in case of non-occurrence of the insured event, for which cash flow A was calculated.

If such scenario does not exist, then the agreement should be classified as a service contract unless it contains a financial risk (if an insurance contract contains a financial risk, then it will be classified as an investment contract).

3 Significant Accounting Policies (Continued)

Key actuarial assumptions underlying the estimate of insurance liabilities under non-life insurance contracts. In estimating liabilities under non-life insurance contracts, management used the assumption that the portfolio is homogeneous by segments of actuarial estimation and the Group's operations are stable to the extent of claims settlement and administration of contracts of direct insurance, reinsurance, inward and outward reinsurance. The estimation of loss provision is made based on the analysis of regularities in the development of claims paid in the previous reporting periods and extrapolation of identified trends to future periods assuming that they will not significantly change. In addition, adjustments can be made to certain segments in the portfolio based on the expected impact on the loss making nature of such factors as changes in the underwriting policy, composition of the Group portfolio, changes in the claims settlement procedure and court practice, and changes in macroeconomic conditions, if any, as of the reporting date. Refer to Note 11.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Refer to Note 22.

Adoption of New or Revised Standards and Interpretations

Adoption of IFRS 15 "Revenue from Contracts with Customers" (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018) and Amendments to IFRS 15 "Revenue from Contracts with Customers" (issued on 12 April 2016 and effective for annual periods beginning on or after 1 January 2018). The Bank has adopted IFRS 15 "Revenue from Contracts with Customers" with the date of initial application of 1 January 2018. The new standard was applied using the modified retrospective method, with the cumulative effect recognised in retained earnings on 1 January 2018. The standard introduced the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price.

Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The standard did not have a material impact on the Group.

IFRS 9 "Financial Instruments" (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at AC, those to be measured subsequently at FVOCI and those to be measured subsequently at FVTPL.
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at AC if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

3 Significant Accounting Policies (Continued)

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

In accordance with the additional interpretations and recommendations by the IFRS Committee, the Group decided to apply the extension for the IFRS 9 application until 1 January 2022, as the Group had adopted IFRS 17 "Insurance Contracts".

Amendments to IFRS 9 – "Prepayment Features with Negative Compensation" (issued on 12 October 2017 and effective at the latest for annual periods beginning on or after 1 January 2018). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. The Group is therefore not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification.

The following amended standards became effective for the Group from 1 January 2018, but did not have any material impact on the Group:

- Amendments to IFRS 2 "Share-based Payment" (issued on 20 June 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IFRS 4 - "Applying IFRS 9, "Financial Instruments", with IFRS 4, "Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach).
- Annual Improvements to IFRSs 2014-2016 cycle – Amendments to IFRS 1 an IAS 28 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).
- Amendments to IAS 40 "Investment Property" (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2018).

New standards and interpretations

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not early adopted.

3 Significant Accounting Policies (Continued)

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its financial statements.

Amendments to IFRS 4 – "Applying IFRS 9, "Financial Instruments", with IFRS 4, "Insurance Contracts" (issued on 12 September 2016 and effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply the overlay approach). These amendments cover issues that arose on adoption of the new financial instrument standard IFRS 9 prior to implementation of the standard that the IASB is developing to replace IFRS 4. Such issues include temporary instability of results reflected in the consolidated financial statements. The amendments introduce two approaches: an overlay approach and a deferral approach. The amended Standard will give all companies that issue insurance contracts the option to recognise in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts Standard is issued. In addition, the amended Standard will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2022. Those entities that defer their adoption of IFRS 9 will keep using IFRS 39, the current standard for recording financial instruments. IFRS 4 amendment supplement the options provided in the Standard that can be used in case of temporary volatility. The Group opted for a late adoption of IFRS 9, as it met all the conditions, in particular: (i) its insurance liabilities exceeded 90% of total liabilities at 31 December 2015, and (ii) no subsequent material changes took place in its operations. The Group intends to transfer to IFRS 9 in 2022.

(in thousands of Russian Roubles)

3 Significant Accounting Policies (Continued)

The table below outlines financial assets at 31 December 2018 to ensure comparability of the indicators with the entities' that apply IFRS 9 at 1 January 2018:

	Non-SPPI assets*		SPPI assets**		Carrying value (IAS 39) of assets that are SPPI analysed by credit rating (by gross carrying value for assets at AC)						Fair value of A-D rated or unrated assets (other than assets with low credit risk)
	Fair value	Fair value gain/(loss) for the year	Fair value	Fair value gain/(loss) for the year	AAA-AA***	A	BBB	BB-D	Unrated	Total for A-D rated or unrated assets	
Available-for-sale financial instruments											
State bonds	-	-	2,019,410	-	-	-	2,019,410	-	-	2,019,410	2,019,410
Corporate bonds	-	-	1,312,343	-	-	-	1,305,817	4,973	1,553	1,312,343	1,312,343
Municipal bonds	-	-	15,762	-	-	-	-	14,740	1,022	15,762	15,762
Units of investment funds	97,439	-	-	-	-	-	-	-	97,439	97,439	97,439
Total available-for-sale financial instruments	**97,439**	**-**	**3,347,515**	**-**	**-**	**-**	**3,325,227**	**19,713**	**100,014**	**3,444,954**	**3,444,954**
L&R											
Deposits with banks	-	-	2,961,052	-	-	-	525,582	1,523,932	911,538	2,961,052	2,961,052
Promissory notes, loans issued and receivables	-	-	2,214,570	-	60,431	9,728	44,789	59,548	2,040,074	2,214,570	2,214,570
Cash and cash equivalents	-	-	243,993	-	-	-	65,407	139,154	39,432	243,993	243,993
Total financial assets at AC	**-**	**-**	**5,419,615**	**-**	**60,431**	**9,728**	**635,778**	**1,722,634**	**2,991,044**	**5,419,615**	**5,419,615**

* These are assets that do not meet SPPI criteria or assets held for trading, or assets under management that are measured at fair value.

** These are assets that meet SPPI criteria except for assets held for trading, or assets under management that are measured at fair value.

*** An entity considers AAA – AA rated assets as assets with low credit risk.

(in thousands of Russian Roubles)

3 Significant Accounting Policies (Continued)

The table below outlines financial assets at 31 December 2017 to ensure comparability of the indicators with the entities' that apply IFRS 9 at 1 January 2018:

	Non-SPPI assets*		SPPI assets**		Carrying value (IAS 39) of assets that are SPPI analysed by credit rating (by gross carrying value for assets at AC)						Fair value of A-D rated or unrated assets (other than assets with low credit risk)
	Fair value	Fair value gain/(loss) for the year	Fair value	Fair value gain/(loss) for the year	AAA-AA***	A	BBB	BB-D	Unrated	Total for A-D rated or unrated assets	
Available-for-sale financial instruments											
State bonds	-	-	1,935,211	-	-	-	1,935,211	-	-	1,935,211	1,935,211
Corporate bonds	-	-	1,456,356	-	-	-	1,310,710	144,095	1,553	1,456,356	1,456,356
Municipal bonds	-	-	22,905	-	-	-	1,715	19,332	1,858	22,905	22,905
Units of investment funds	142,247	-	-	-	-	-	-	-	142,247	142,247	142,247
Total available-for-sale financial instruments	**142,247**	**-**	**3,414,472**	**-**	**-**	**-**	**3,247,634**	**163,427**	**145,658**	**3,556,719**	**3,556,719**
L&R											
Deposits with banks	-	-	1,470,229	-	-	-	-	1,037,098	433,131	1,470,229	1,470,229
Promissory notes, loans issued and receivables	-	-	2,659,079	-	192,806	1,556	16,435	74,861	2,373,421	2,659,079	2,659,079
Cash and cash equivalents	-	-	660,666	-	-	-	10,823	616,483	33,360	660,666	660,666
Total financial assets at AC	**-**	**-**	**4,789,974**	**-**	**192,806**	**1,556**	**27,258**	**1,728,442**	**2,839,912**	**4,789,974**	**4,789,974**

* These are assets that do not meet SPPI criteria or assets held for trading, or assets under management that are measured at fair value.

** These are assets that meet SPPI criteria except for assets held for trading, or assets under management that are measured at fair value.

*** An entity considers AAA – AA rated assets as assets with low credit risk.

(in thousands of Russian Roubles)

3 Significant Accounting Policies (Continued)

IFRS 16 "Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases in the consolidated financial statements. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group made a decision to apply this standard using the modified retrospective method, without restatement of comparatives, starting from the date of mandatory application, 1 January 2019. Based on the available information and current implementation status, the management believes that the right-of-use assets will be recognised in the amount not more than RR 73,575 thousand for respective lease liability as of 1 January 2019. A reconciliation of the operating lease commitments disclosed to this liability is as follows.

	31 December 2018/ 1 January 2019
Total future minimum lease payments for non-cancellable operating leases (Note 22)	**80,942**
Future lease payments that are due in periods subject to lease extension options that are reasonably certain to be exercised	-
Future variable lease payments that are based on an index or a rate	-
Restatement of minimum lease payments under one-year contracts for the term of three years*	41,706
Restatement of minimum lease payments under one-year contract with a related party for the term of ten years**	668
Effect of discounting to present value	(49,741)
Total lease liabilities	**73,575**

IFRIC 23, Uncertainty over Income Tax Treatments (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment.

The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

3 Significant Accounting Policies (Continued)

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2021). IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk.

If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its consolidated financial statements.

Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures" (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments clarify that reporting entities should apply IFRS 9 to long-term loans, preference shares and similar instruments that form part of a net investment in an equity method investee before they can reduce such carrying value by a share of loss of the investee that exceeds the amount of investor's interest in ordinary shares. The Group does not expect any impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 cycle – amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. For IFRS 3 they clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Amendments to IAS 19 – "Plan Amendment, Curtailment or Settlement" (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan – an amendment, curtailment or settlement – takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of statutory accounting (financial) statements. The Group is currently assessing the impact of the amendment on its consolidated financial statements.

Amendments to the Conceptual Statements for Statutory Accounting (Financial) Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in consolidated financial reporting.

(in thousands of Russian Roubles)

3 Significant Accounting Policies (Continued)

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the annual reporting period starting on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The acquired assets will not be consider a business if substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. The amendments are forward-looking, and the Group will apply them and assess their effect from 1 January 2020.

Amendments to IAS 1 – Definition of Material (Amendments to IAS 1 and IAS 8) (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of materiality and the application of this definition through providing the guidance regarding the definition that was previously provided in other IFRS standards. In addition, the explanations accompanying the definition have been improved. The amendments also provide for consistency of using the definition of materiality in all IFRS standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose consolidated financial statements make on the basis of those consolidated financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s consolidated financial statements.

4 Cash and Cash Equivalents

	2018	**2017**
Cash on hand	710	1,606
Bank accounts		
- accounts denominated in Russian Roubles	104,821	503,923
- foreign currency accounts	138,462	155,137
Total cash and cash equivalents	**243,993**	**660,666**

As at 31 December 2018, cash and cash equivalents include balances with 3 Russian banks accounting for 59% of total bank balances. As at 31 December 2017, cash and cash equivalents include balances with one foreign bank accounting for 73% of total cash and cash equivalents.

At 31 December 2018 and 31 December 2017, there are no restricted cash balances.

Information on the credit quality of cash and cash equivalents is disclosed in Note 23.

At 31 December 2018 and 2017, cash with banks were neither past due, nor impaired.

5 Deposits with Banks

	2018	**2017**
Deposits in Russian Roubles		
- less than 30 days maturity	1,828,066	62,183
- more than 30 days maturity	1,054,853	1,406,552
Deposits in foreign currency		
- less than 30 days maturity	75,927	-
- more than 30 days maturity	2,206	1,494
Total deposits with banks	**2,961,052**	**1,470,229**

(in thousands of Russian Roubles)

5 Deposits with Banks (Continued)

As of 31 December 2018, five largest banks by amount of deposits placed with them by the Group are Russian banks, and the total amount of deposits placed with them accounts for RR 941,308 thousand, or 32% of total deposits with banks. As of 31 December 2017, five largest banks by amount of deposits placed with them by the Group are Russian banks, and the total amount of deposits placed with them accounts for RR 1,409,321 thousand, or 96% of total deposits with banks.

As at 31 December 2018 and 2017, there are no overdue or impaired deposits with Banks.

As of 31 December 2018, the average effective interest rate for deposits in Russian Roubles is 6.8% per annum (2017: 4.6% per annum), and for USD deposits it is 0.4% per annum (2017: 1.0%).

All deposits with banks bear fixed interest rates.

As at 31 December 2018, deposits have maturity dates in 2019.

The credit quality of deposits with banks is disclosed in Note 23.

6 Available-for-Sale Financial Instruments

	2018	2017
RR denominated		
- Russian government bonds	1,821,208	1,861,818
- Corporate bonds	646,119	735,597
- Units of investment funds	142,399	142,247
- Municipal bonds	15,762	22,905
- Other	1,553	1,553
USD denominated		
- Russian corporate and government Eurobonds	371,340	394,690
EUR denominated		
- Russian corporate and government Eurobonds	491,533	397,909
Provision for mutual investment funds impairment	(44,960)	-
Total Available-for-Sale Financial Instruments	**3,444,954**	**3,556,719**

As at 31 December 2018, Russian Rouble denominated corporate bonds have maturity dates ranging from 2019 to 2046 (2017: from 2018 to 2046), coupon rates of 7-10% p.a. (2017: 8-12% p.a.) and a market average effective yield to maturity of 8.9% p.a. (2017: 9.0% p.a.) depending on the type of bond issue.

As at 31 December 2018, Russian Rouble denominated government bonds have maturity dates ranging from 2019 to 2022 (2017: from 2018 to 2036), coupon rates of 6-8% p.a. (2017: 6-10% p.a.) and a market average effective yield to maturity of 8.1% p.a. (2017: 8.3% p.a.) depending on the type of bond issue.

As at 31 December 2018, Russian Rouble denominated municipal bonds have maturity dates ranging from 2024 to 2025 (2017: from 2018 to 2025), coupon rates of 8-9% p.a. (2017: 7-12% p.a.) and a market average effective yield to maturity of 8.0% p.a. (2017: 8.0% p.a.) depending on the type of bond issue.

As at 31 December 2018, US dollar denominated Russian corporate and government bonds have maturity dates ranging from 2019 to 2030 (2017: from 2019 to 2030), coupon rates of 6-9% p.a. (2017: 6-9% p.a.) and a market average effective yield to maturity of 3.8% p.a. (2017: 3.8% p.a.) depending on the type of bond issue.

As at 31 December 2018, Euro denominated Russian corporate and government bonds have maturity dates ranging from 2018 to 2023 (2017: from 2018 to 2023), coupon rates of 2-7% p.a. (2017: 2-7% p.a.) and a market average effective yield to maturity of 3.7% p.a. (2017: 3.5% p.a.) depending on the type of bond issue.

As at 31 December 2017, the Group had no overdue available-for-sale financial instruments.

Refer to Note 23 for information about the credit quality of available-for-sale financial instruments.

(in thousands of Russian Roubles)

7 Promissory Notes and Loans Issued

	2018	2017
Loans issued	192,746	795,768
Interest accrued	21,381	11,807
Total promissory notes and loans issued	**214,127**	**807,476**

At 31 December 2018 and 31 December 2017, all loans issued are not impaired and not collateralised.

Information on credit quality of loans issued is presented in Note 23. Information on related party balances and transactions is disclosed in Note 28.

8 Receivables

	2018	2017
Receivables from reinsurer's fee under extended warranty contracts	1,001,444	414,294
Receivables arising from direct insurance contracts	637,294	685,915
Receivables arising from subrogation and recourse	355,932	730,819
Receivables arising from assumed reinsurance	234,812	162,231
Receivables arising from ceded reinsurance	164,996	505,237
Settlements on non-insurance transactions	49,689	79,712
Total accounts receivable before provision	**2,444,167**	**2,578,208**
Impairment loss provision	(443,724)	(726,605)
Total accounts receivable	**2,000,443**	**1,851,603**

Receivables that are less than one month overdue but not impaired total RR 10,604 thousand (2017: RR 9,545 thousand). Receivables that are past due more than one month amount to RR 726,202 thousand (2017: RR 1,423,974 thousand). Such receivables are allocated an impairment allowance of RR 443,724 (2017: RR 726,605 thousand).

As at 31 December 2018, the Company had 2 debtors with a total amount of debt of RR 650,031 thousand, or 27% of total receivables from insurance and reinsurance operations under non-life insurance contracts before impairment provision (2017: 2 debtors with total receivables of RR 351,809 thousand, or 14%).

Movements in the provision for impairment of receivables are as follows:

	2018	2017
Provision for impairment as at 1 January	726,605	945,166
Charge to provision for impairment	70,394	19,920
Write-off against provision	(353,275)	(238,481)
Provision for impairment at 31 December	**443,724**	**726,605**

Information on related party balances disclosed in note 28. Information on credit quality of receivables is disclosed in Note 23.

(in thousands of Russian Roubles)

9 Premises and Equipment, Intangible Assets and Investment Properties

	Buildings and facilities	Office equipment and computers	Intangible assets	Total
Cost				
At 1 January 2017	565,233	507,378	944,353	2,016,964
Additions	230	21,506	39,063	60,799
Transfers to investment property	(189,173)	-	-	(189,173)
Disposals	(9,262)	(9,207)	-	(18,469)
Acquisition of subsidiary (Note 28)	283,235	70,105	3,633	356,973
At 31 December 2017	**650,263**	**589,782**	**987,049**	**2,227,094**
Additions	-	16,363	35,905	52,268
Transfers to investment property	(47,778)	-	-	(47,778)
Disposals	(118,801)	(150,843)	(11,571)	(281,215)
At 31 December 2018	**483,684**	**455,302**	**1,011,383**	**1,950,369**
Depreciation				
At 1 January 2017	209,377	432,529	857,279	1,499,185
Depreciation and amortization charge for the year	15,354	48,753	68,883	132,990
Transfers to investment property	(70,782)	-	-	(70,782)
Disposals	(3,663)	(8,654)	-	(12,317)
Acquisition of subsidiary (Note 28)	71,510	58,744	1,948	132,202
At 31 December 2017	**221,796**	**531,372**	**928,110**	**1,681,278**
Depreciation and amortization charge	22,264	26,991	55,350	104,605
Transfers to investment property	(32,149)	-	-	(32,149)
Disposals	(100,166)	(130,401)	(9,673)	(240,240)
At 31 December 2018	**111,745**	**427,962**	**973,787**	**1,513,494**
Carrying amount at				
31 December 2017	428,467	58,410	58,939	545,816
31 December 2018	371,940	27,330	37,596	436,875

An analysis of movements in investment property is provided below:

	Cost	Depreciation	Carrying amount
Balance at 1 January 2017	**799,984**	**(205 073)**	**594,911**
Transfer from premises and equipment	189,173	(70,782)	118,391
Transfer to assets held for sale	(444,966)	94,793	(350,173)
Depreciation and amortization charge	-	(17,195)	(17,195)
Balance at 31 December 2017	**544,191**	**(198,257)**	**345,934**
Transfer from premises and equipment	71,098	(41,693)	29,405
Disposal	(118,875)	25,866	(93,009)
Depreciation and amortization charge	-	(16,322)	(16,322)
Balance at 31 December 2018	**496,414**	**(230,406)**	**266,008**

Depreciation for investment property is applied on a straight-line basis at a rate of 2.0-2.5% per annum.

Rental income for 2018 amounts to RR 55,130 thousand (2017: RR 142,292 thousand) and is included into other income (Note 16).

In 2017, the Management committed to a plan to sell a building located on the street Seleznevskaya, 32 with a carrying value of RR 350,173 thousand. As a result, the building was reclassified to assets held for sale and recognized at net realizable value of RR 306,547 thousand. The loss of RR 43,626 thousand was included within other expenses in the consolidated statement of profit or loss and other comprehensive income.

(in thousands of Russian Roubles)

10 Unearned Premium Reserve

Movements in the provision for unearned premiums for 2018 and 2017 are as follows:

	2018			2017		
	Total amount	Reinsurers' share	Net amount	Gross amount	Reinsurers' share	Net amount
Unearned premium provision at 1 January	2,360,204	(1,111,784)	**1,248,420**	3,302,257	(1,130,770)	2,171,487
Change in provision during the year	(541,166)	178,375	**(362,791)**	(1,004,620)	35,149	(969,471)
Change in unexpired risk provision	(80,697)	-	**(80,697)**	60,778	-	60,778
Effects of changes in foreign exchange rates	57,229	(34,720)	**22,509**	1,789	(16,163)	(14,374)
Unearned premium reserve at 31 December	**1,795,570**	**(968,129)**	**827,441**	**2,360,204**	**(1,111,784)**	**1,248,420**

At 31 December 2018, adequacy of reserves against non-life insurance contracts was assessed. Based on the assessment results, management wrote off deferred acquisition costs of RR 58,359 thousand (2017: deferred acquisition costs were written off for a total of RR 7,092 thousand and a provision for unexpired risk was assessed for a total of RR 141,475 thousand).

Information on related party balances disclosed in note 28.

11 Loss Provision

The analysis of the provision for losses as at 31 December 2018 and 2017 is presented below:

	2018			2017		
	Outstanding claims provision and IBNR	Claims handling costs reserve	Total	Outstanding claims provision and IBNR	Claims handling costs reserve	Total
Loss provision, gross	3,691,325	687,741	**4,379,066**	4,736,992	843,981	**5,580,973**
Reinsurers' share of loss provision	(2,364,008)	(148,447)	**(2,512,455)**	(3,134,093)	(220,894)	**(3,354,987)**
Loss provision, net of reinsurers' share	**1,327,317**	**539,294**	**1,866,611**	**1,602,899**	**623,087**	**2,225,986**

The estimation of loss provision and reinsurers' share in them is made using actuarial methods: the modified Chain Ladder method and the Bornhuetter-Ferguson method applied to the triangles of losses claimed and claims paid. As a final estimation of loss provisions, the Group chooses a weighted average value between the results calculated using several methods, and also considers estimates made at the end of the previous year. The reinsurers' share in loss provisions is based on the share of risks transferred by the Group to reinsurance.

(in thousands of Russian Roubles)

11 Loss Provision (Continued)

Movements in the loss provision during 2018 and 2017 are as follows:

	2018			2017		
	Outstanding claims provision and IBNR	**Claims handling costs reserve**	**Total**	**Outstanding claims provision and IBNR**	**Claims handling costs reserve**	**Total**
Loss provision, net of reinsurance, as at 1 January	1,602,899	623,087	**2,225,986**	2,928,384	1,049,195	**3,977,579**
(Decrease) increase in loss provision	(1,291,902)	(156,239)	**(1,448,141)**	(109,995)	(354,828)	**(464,823)**
(Increase) decrease in reinsurers' share in loss provision	992,117	72,446	**1,064,563**	(1,201,297)	(71,280)	**(1,272,577)**
Effects of changes in foreign exchange rates	24,203	-	**24,203**	(14,193)	-	**(14,193)**
Loss provision as at 31 December, net of reinsurance	**1,327,317**	**539,294**	**1,866,611**	**1,602,899**	**623,087**	**2,225,986**

Information on related party balances disclosed in note 28.

In 2018, due to closing some large losses covered by reinsurance, and overall improvement in the assessment of loss ratio under the extended guarantee, management released loss provisions and reinsurers' share of loss provision for previous periods.

A substantial increase in reinsurer's share of loss provision during 2017 is a result of increase in gross loss provision due to new large reported claims, substantial part of which is reinsured. At the same time, the increase in gross loss provision was offset by the release of provisions for retail lines of business, including motor insurance, other property and liability insurance, and other provisions associated with litigations, including those related to already expired contracts. These provisions were set by the Group in 2014-2015 years, when the Group faced high loss ratios on these lines of business. In accordance with the new strategy, adopted in 2014, the Group stopped development of these lines. The management expected that final settlement of claims on these lines of business would require significant payments and as at 31 December 2015 and 2016 kept substantial reserves for these lines and opened court claims. However actual volume of insurance and court related claims in 2017 was lower than Group's expectations and claims settlement development further improved in the reporting period as well as the Group won substantial part of court litigations. Thus the management revised the estimated ultimate claims settlement amount for these lines downwards and made a decision to release substantial part of the loss provision. This matter had a significant positive impact on net claims incurred, insurance activities results and net profit for the period.

Assumptions and sensitivities used in estimating the loss provision

Process used to determine the assumptions. The assumptions used in the estimation of insurance assets and liabilities are intended to result in provisions which are sufficient to cover any liabilities arising out of insurance contracts so far as can reasonably be foreseen. However, given the uncertainty in establishing a provision for outstanding claims, it is likely that the final outcome will prove to be different from the original liability established.

Provision at the reporting date represents the expected ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related external claims handling expenses, less amounts already paid. The loss provision is not discounted for the time value of money.

In calculating the estimated cost of unpaid claims(both reported or not), the Group estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and premiums earned in a particular reporting year in relation of such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

(in thousands of Russian Roubles)

11 Loss Provision (Continued)

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims has happened.

In estimating the loss provision the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assumptions. The initial loss-ratio estimate is the assumption that has the greatest effect on the measurement of the loss reserves. The initial loss-ratio estimate is based on previous years' experience, adjusted for factors such as premium rate change, anticipated market experience and historical claims inflation. In addition, when determining the loss provision, the projection of future cash flows includes estimated values of parameters that can affect the amount of an individual claim (e.g. frequency of claims, risks connected with the insurance contract - death as a result of an accident, persistent effects, recovery time, time between date of occurrence of the insured event and the settlement date).

Sensitivity analysis. Management believes that, due to short-tailed nature of the Group's business, the performance of the Group's portfolio is sensitive mainly to changes in expected loss ratios. The Group adjusts its insurance tariffs on a regular basis based on the latest developments in these variables so that any emerging trends are taken into account. However, the sensitivity of certain assumptions, such as legislative change, is not possible to quantify. Furthermore because of delays that arise between the occurrence of a claim and its subsequent notification and eventual settlement, the claims provisions are based on estimates.

Consequently, the ultimate liability will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognized in the period when reassessment is made.

The table below indicates the effect of changes in the expected loss ratios as at 31 December 2018 of certain lines of business related to the period of claim, which conforms with the related reporting period, to the profit and loss before tax and equity:

	Net of reinsurance		Including reinsurance	
	Effect on profit or loss before tax	**Effect on equity**	**Effect on profit or loss before tax**	**Effect on equity**
Property, liability, marine and financial risks insurance				
Expected loss ratio increase by 10%	(104,492)	(83,594)	(25,953)	(20,763)
Expected loss ratio decrease by 10%	129,990	103,992	32,822	26,257
Personal insurance				
Expected loss ratio to be increased by 10%	(48,202)	(38,562)	-	-
Expected loss ratio to be decreased by 10%	60,111	48,089	-	-

The table below indicates the effect of changes in the expected loss ratios as at 31 December 2017 of certain lines of business related to the period of claim, which conforms with the related reporting period, to the profit and loss before tax and equity before reinsurance.

(in thousands of Russian Roubles)

11 Loss Provision (Continued)

	Net of reinsurance		Including reinsurance	
	Impact on profit or loss before tax	**Effect on equity**	**Impact on profit or loss before tax**	**Effect on equity**
Property, liability, marine and financial risks insurance				
Expected loss ratio to be increased by 10%	(357,173)	(285,739)	(64,565)	(51,652)
Expected loss ratio to be decreased by 10%	356,325	285,060	64,512	51,610
Personal insurance				
Expected loss ratio to be increased by 10%	(24,498)	(19,598)	-	-
Expected loss ratio to be decreased by 10%	24,498	19,598	-	-

12 Claims Development Analysis

The claims development analysis is provided for the lines of business for which uncertainty about the amount and timing of claims payments is typically resolved within more than one year. The estimate of claims at the end of a particular underwriting year includes claims filed and paid during the year. The analysis does not include loss adjustment expenses.

Property insurance

Year of loss event	2014	2015	2016	2017	2018	Total
Total estimate of claims:						
At the end of the year of loss event	2,689,242	1,450,976	581,175	1,373,731	628,280	**6,723,404**
In one year	2,457,320	1,601,004	1,137,419	1,209,141	-	**6,404,884**
In two years	1,789,112	1,692,008	1,025,433	-	-	**4,506,553**
In three years	1,780,971	1,661,975	-	-	-	**3,442,946**
Four years later	1,809,933	-	-	-	-	**1,809,933**
Estimate of cumulative claims	**1,809,933**	**1,661,975**	**1,025,433**	**1,209,141**	**628,280**	**6,334,762**
Claims paid	(1,726,221)	(1,561,442)	(824,077)	(288,545)	(184,219)	**(4,584,504)**
Provision for claims incurred before 2014	-	-	-	-	-	**52,252**
Total reserve for unsettled claims	**83,712**	**100,533**	**201,356**	**920,596**	**444,061**	**1,750,258**

Extended warranty

Year of loss event	2016	2017	2018	Total
Total estimate of claims:				
At the end of the year of loss event	441,518	1,044,279	509,454	**1,995,251**
In one year	547,284	766,238	-	**1,313,522**
In two years	537,232	-	-	**537,232**
In three years	-	-	-	**-**
Four years later	-	-	-	**-**
Estimate of cumulative claims	**537,232**	**766,238**	**509,454**	**1,812,924**
Claims paid	(487,760)	(578,200)	(218,132)	**(1,284,092)**
Provision for claims incurred before 2014	-	-	-	**-**
Total reserve for unsettled claims	**49,472**	**188,038**	**291,322**	**528,832**

An extended warranty is an insurance product under which the Group will pay an insurance compensation in the event of property damage after the expiration of the manufacturer’s warranty.

(in thousands of Russian Roubles)

12 Claims Development Analysis (Continued)

Other material lines of business

Year of loss event	2014	2015	2016	2017	2018	Total
Total estimate of claims:						
At the end of the year of loss event	1,526,961	1,140,771	1,062,582	364,122	611,761	**4,706,197**
In one year	3,639,980	1,051,977	477,938	287,845	-	**5,457,740**
In two years	3,666,551	1,132,390	428,304	-	-	**5,227,245**
In three years	4,111,273	854,930	-	-	-	**4,966,203**
Four years later	4,165,177	-	-	-	-	**4,165,177**
Estimate of cumulative claims	**4,165,177**	**854,930**	**428,304**	**287,845**	**611,761**	**6,348,017**
Claims paid	(3,901,179)	(761,835)	(302,539)	(196,299)	(143,083)	**(5,304,935)**
Provision for claims incurred before 2014	-	-	-	-	-	**147,481**
Total reserve for unsettled claims	**263,998**	**93,095**	**125,764**	**91,546**	**468,678**	**1,190,563**

A reconciliation of claims development analysis to gross carried loss provision as at 31 December 2018 and information about the related reinsurers' share of loss provision is provided below:

	Loss provision, gross	Reinsurers' share of loss provision	Loss provision, net of reinsurers' share
Property insurance	1,802,510	(1,374,743)	**427,767**
Extended warranty	528,832	(496,889)	**31,943**
Other material lines of business			
Accident insurance and travellers	484,290	(45,717)	**438,573**
Financial risk insurance	462,062	(341,242)	**120,820**
Liability insurance	229,037	(103,297)	**125,740**
Other	15,174	(192)	**14,982**
Total other material lines of business	**1,190,563**	**(490,448)**	**700,115**
Other lines of business	169,420	(1,928)	**167,492**
Outstanding claims provision and IBNR	**3,691,325**	**(2,364,008)**	**1,327,317**
Loss adjustment expenses	687,741	(148,447)	539,294
Total loss provision	**4,379,066**	**(2,512,455)**	**1,866,611**

13 Goodwill

Goodwill arose from the acquisition of Medexpress in 2006.

14 Payables

	2018	2017
Insurance premiums received in advance payable	1,782,580	1,022,976
Payables arising from outward reinsurance premiums ceded	821,027	1,107,641
Payables on settlement with agents	252,253	200,356
Payables arising out of claims assumed	49,616	26,583
Total payables arising from insurance operations	**2,905,476**	**2,357,556**
Payables to employees and social funds	272,527	480,868
Payables arising from other financial liabilities	126,405	126,405
Payables arising from accrued expenses	117,862	127,945
Taxes and levies payable	31,530	67,907
Other non-financial payables	53,640	82,875
Total other financial and non-financial payable	**601,964**	**759,595**
Total payables	**3,507,440**	**3,243,556**

Prepaid insurance premiums as at 31 December 2018 include RR 1,520,592 thousand (31 December 2017: 786,098) payable to a reinsurer under the extended warranty contracts coming into effect in 2019-2021.

Information on related party balances disclosed in note 28.

(in thousands of Russian Roubles)

15 Other Liabilities

	2018	2017
Provision for business reorganization	106,319	154,587
Provision for litigation	29,487	18,746
Accrued penalties	20,175	20,175
Provision for guarantees and letters of credit issued	7,300	365,486
Other	4,499	52,469
Total other liabilities	**167,780**	**611,463**

In 2017, the Group adopted a plan to optimize expenses and the headcount, and the provision for business reorganization was set in accordance with the plan. The provision was recorded within changes in provisions in the consolidated statement of profit or loss and other comprehensive income.

In 2018, provision for reorganization was updated in line with further implementation of plans to optimize the company's business processes.

16 Other Revenue

Other income comprises the following:

	2018	2017
Income from provision of medical services	263,818	101,801
Income from recovery of reserve for restructuring	93,821	-
Unclaimed payables on reinsurance operations write off	69,155	30,401
Rental income from investment properties	64,876	142,292
Gain on disposal of premises and equipment	28,897	-
Accrued acquisition expenses write off	9,939	327,926
Write-off of expired accounts payable related to insurance premiums return	-	138,731
Other	67,364	50,279
Total other income	**597,870**	**791,430**

In accordance with the strategy adopted in 2014, the Group stopped developing retail insurance products, such as motor, other property and liability insurance. In addition, in 2016, the Group transferred voluntary medical insurance and life insurance portfolios, as well as the assets that were used to cover related insurance liabilities. An implementation of the strategy lead to significant changes in the structure and volume of the Group's business. As factual level of acquisition expenses and settlement of payables fell substantially below Group's expectations in 2017, the management made a decision in 2017 to write off part of previously accrued acquisitions expenses and payables. Written off amounts were reported through other income.

17 Share Capital and Additional Paid-in Capital

As at 31 December 2018 and 2017, authorised, issued and outstanding share capital of the Company comprises 146,530,499 ordinary shares. All shares have a nominal value of RR 19.5, rank equally and carry one vote per share at annual and extraordinary general meetings of the shareholders.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to provisions on the basis of statutory accounting (financial) statements prepared in accordance with Russian Accounting Rules for insurance companies. As of 31 December 2018, the Company's equity per statutory accounting (financial) statements was RR 3,992,515 thousand.

(in thousands of Russian Roubles)

18 Analysis of Premiums and Claims by Lines of Business and Analysis of Operating Profit

Analysis of insurance premiums and claims by lines of business for the year 2018 is provided below:

	Property insurance	Voluntary medical insurance	Financial risks	Personal accident	Auto transport	Extended warranty	Liability	Other	Total
Gross premiums written	2,085,101	915,134	303,153	388,116	103,856	304,649	834,039	2,722	4,936,770
Premiums ceded	(1,648,074)	(23,947)	(278,579)	(117,817)	(23,204)	(306,327)	(558,639)	-	(2,956,587)
Net premiums written	**437,027**	**891,187**	**24,574**	**270,299**	**80,652**	**(1,678)**	**275,400**	**2,722**	**1,980,183**
Change in unearned premium provision, gross	108,554	(39,813)	118,395	404,384	10,488	193,721	40,861	-	621,862
Change in reinsurers' share of unearned premiums reserve	(74,320)	(62,656)	(59,834)	(233,861)	(1,323)	(105,792)	(50,451)	-	(178,375)
Change in provision for unearned premiums, net	34,234	(102,469)	58,561	170,523	9,165	87,929	(9,590)	-	443,487
Net premiums earned	**471,261**	**788,718**	**83,135**	**440,822**	**89,817**	**86,251**	**265,810**	**2,722**	**2,423,670**
Gross claims paid	(511,757)	(609,552)	1,917	(163,763)	(47,701)	(448,796)	(49,406)	(176)	(1,829,234)
Reinsurers' share of claims paid	354,904	15,879	9,559	23,492	13,428	439,153	5,353	-	861,768
Net premiums paid	**(156,853)**	**(593,673)**	**11,476**	**(140,271)**	**(34,273)**	**(9,643)**	**(44,053)**	**(176)**	**(967,466)**
Claims handling expenses	(60,217)	(52,940)	(4,415)	(11,285)	(69,902)	(20,250)	(6,233)	(654)	(225,896)
Change in loss provision, gross	813,657	(23,150)	65,196	24,629	90,632	259,341	217,836	-	1,448,140
Change in reinsurers' share of loss provision	(690,163)	2,124	(31,519)	(9,570)	(2,696)	(191,661)	(141,079)	-	(1,064,563)
Change in loss provision, net	123,494	(21,026)	33,677	15,059	87,936	67,680	76,757	-	383,577
Net claims incurred	**(93,576)**	**(667,639)**	**40,738**	**(136,497)**	**(16,239)**	**37,787**	**26,471**	**(830)**	**(809,785)**
Net premiums earned less losses incurred	**377,685**	**121,079**	**123,873**	**304,325**	**73,578**	**124,038**	**292,281**	**1,892**	**1,613,885**

Gross claims paid for 2018 are presented net of subrogation and recourse income of RR 362,791 thousand (2017: RR 200,498 thousand).

(in thousands of Russian Roubles)

18 Analysis of Premiums and Claims by Lines of Business and Analysis of Operating Profit (Continued)

An analysis of premiums and claims by line of business for 2017 is provided in the following table (including discontinued operations):

	Property insurance	Voluntary medical insurance	Financial risks	Personal accident	Auto transport	Extended warranty	Liability	Other	Total
Gross premiums written	1,953,662	815,133	323,639	217,176	107,505	492,657	806,838	(11,328)	4,705,282
Premiums ceded	(1,623,015)	(38,702)	(305,631)	(127,427)	(23,070)	(480,260)	(615,105)	311	(3,212,899)
Net premiums written	**330,647**	**776,431**	**18,008**	**89,749**	**84,435**	**12,397**	**191,733**	**(11,017)**	**1,492,383**
Change in unearned premium reserve	157,934	(21,728)	63,642	760,457	37,428	(83,075)	35,677	(6,492)	943,842
Change in reinsurers' share of unearned premiums reserve	(100,999)	3,257	45,814	(212)	(1,386)	26,592	(8,221)	5	(35,149)
Change in unearned premium reserve, net	56,935	(18,471)	109,456	760,245	36,042	(56,483)	27,456	(6,487)	908,693
Net premiums earned	**387,582**	**757,960**	**127,464**	**849,994**	**120,477**	**(44,086)**	**219,189**	**(17,504)**	**2,401,076**
Gross claims paid	(841,372)	(508,832)	(157,588)	(210,987)	(236,645)	(768,046)	(53,689)	3,352	(2,773,807)
Reinsurers’ share of claims paid	665,169	20,467	166,486	23,712	12,205	718,496	11,737	2	1,618,274
Net premiums paid	**(176,203)**	**(488,365)**	**8,898**	**(187,275)**	**(224,440)**	**(49,550)**	**(41,952)**	**3,354**	**(1,155,533)**
Claims handling expenses	(77,164)	(64,226)	(26,925)	(12,141)	(123,472)	(81,920)	(8,776)	(129)	(394,753)
Change in loss provision	(626,027)	25,526	63,367	417,409	1,078,770	(275,722)	(223,095)	4,594	464,823
Change in reinsurers’ share of loss provision	664,871	(26,693)	190,833	(20,981)	508	224,172	162,570	77,298	1,272,577
Change in loss provision, net	38,844	(1,167)	254,200	396,428	1,079,278	(51,550)	(60,525)	81,892	1,737,400
Net claims incurred	**(214,523)**	**(553,758)**	**236,173**	**197,012**	**731,366**	**(183,020)**	**(111,253)**	**85,117**	**187,114**
Net premiums earned less losses incurred	**173,059**	**204,202**	**363,637**	**1,047,006**	**851,843**	**(227,106)**	**107,936**	**67,613**	**2,588,190**

(in thousands of Russian Roubles)

19 Interest Income

	2018	2017
Available-for-sale financial instruments	221,094	268,341
Deposits with banks	118,493	210,923
Promissory notes and loans issued	60,589	30,195
Cash and cash equivalents	12,568	10,896
Total interest income	**412,744**	**520,355**

20 Acquisition Costs

Acquisition costs comprise the following:

	2018	2017
Deferrable costs		
Brokerage and agents commission	523,780	460,675
Salaries	75,092	112,790
Social security and related employee costs	30,125	32,341
Other	7,215	6,543
Total deferrable costs	**636,212**	**612,349**
Non-deferrable costs		
Salaries and bonuses	337,091	407,471
Administrative expenses	138,262	102,771
Social security and similar expenses	50,602	52,446
Advertising and marketing	13,479	7,350
Lease	11,976	27,316
Information and consulting services	9,737	27,088
Business trip expenses	4,892	6,924
Depreciation	325	2,037
Telecommunications expenses	2,017	1 088
Transport expenses	1,326	1,018
Other	10,824	9,316
Total non-deferrable costs	**580,531**	**644,825**
Total acquisition costs	**1,216,743**	**1,257,174**
Less: commission income on reinsurance ceded	(651,211)	(743,062)
Net change in deferred acquisition costs	207,323	638,705
Total acquisition costs	**772,855**	**1,152,817**

Information on related party balances disclosed in note 28.

Movements in the deferred acquisition costs during 2018 and 2017 are as follows:

	2018	2017
Deferred acquisition costs at 1 January	**293,432**	**932,137**
Change in deferred acquisition costs	(200,052)	(581,232)
Change in commission income on reinsurance ceded	51,088	(50,381)
Unexpired risk reserve	(58,359)	(7,092)
Net change in deferred acquisition costs	**(207,323)**	**(638,705)**
Deferred acquisition costs at 31 December	**86,109**	**293,432**

(in thousands of Russian Roubles)

21 Operating Expenses

Operating expenses from insurance activities are as follows:

	2018	2017
Salaries and bonuses	211,190	406,415
Depreciation	109,734	156,251
Administrative expenses	99,254	162,145
Social security and related employee costs	64,401	105,071
Information and consulting services	43,927	283,465
Lease	42,330	41,550
Transport expenses	24,674	19,415
Telecommunications expenses	21,176	25,126
Repair	19,322	2,520
Expenses on legal services	4,654	3,345
Business trip expenses	3,114	7,505
Advertising and marketing	1,016	6,956
Other	40,197	18,632
Total insurance operating expenses	**684,989**	**1,238,396**

Investment operating expenses comprise the following:

	2018	2017
Information and consulting services	6,403	8,244
Administrative expenses	2,469	2,917
Salaries and bonuses	1,537	4,340
Social security and related employee costs	512	1,085
Other	442	770
Total investment operating expenses	**11,363**	**17,356**

Other expenses are as follows:

	2018	2017
Salaries and bonuses	125,136	19,043
Lease	21,763	3,816
Administrative expenses	15,193	9,650
Depreciation	6,508	1,036
Social security and related employee costs	2,858	5,209
Transport expenses	2,628	400
Information and consulting services	1,827	144
Other	16,592	3,806
Total other operating expense	**192,505**	**43,104**

22 Income Taxes

Income tax expense comprises the following:

	2018	2017
Current income tax (expense) benefit	(109,362)	(28,254)
Change in deferred tax (liability) asset	15,339	(11,295)
Total income tax expense	**(94,023)**	**(39,549)**

In 2017 and 2017 income tax rate applicable to the majority of the income of the Company and its subsidiaries is 20%.

(in thousands of Russian Roubles)

22 Income Taxes (Continued)

Reconciliation between the expected and the actual tax expense is provided below:

	2018	2017
Profit before tax	**864,785**	**1,265,626**
Income tax calculated at the current income tax rate of 20%	(172,957)	(253,125)
Impact of taxable or non-taxable transactions:		
- Non-deductible expenses	(212,106)	(136,643)
- Income which is exempt from taxation	34,958	52,876
- Income on government securities taxed at different rates	6,284	9,079
Recognised tax effect of previously unrecognised tax losses	249,798	192,684
Changes in estimates related to prior years	-	95,580
Total income tax expense	**(94,023)**	**(39,549)**

At 31 December 2018, the Group has unrecognised potential deferred tax assets in respect of unused tax loss carry forwards of RR 304,419 thousand. (31 December 2017: RR 841,463 thousand).

An analysis of movements in deferred tax balances during 2018 is provided in the table below (excluding unrecognized tax loss carry forwards):

	At 1 January 2018	Charged to profit or loss	Charged to other comprehen-sive income	At 31 December 2018
Tax effect of deductible temporary differences				
Receivables and payables	150,538	(24,736)	-	175,274
Unearned premiums reserve and loss provisions	14,172	(14,172)	-	-
Financial instruments	28,097	(28,097)	-	-
Other	111,994	(111,994)	-	-
Unrecognised deferred tax asset	(148,986)	107,083	-	(41,903)
Tax loss carried forward	-	139,217	-	139,217
Gross deferred tax assets	**155,815**	**116,773**	**-**	**272,588**
Tax effect of taxable temporary differences				
Deferred acquisition costs	(53,116)	43,111	-	(10,005)
Financial instruments	-	(27,353)	14,702	(12,651)
Unearned premiums reserve and loss provisions	-	(90,489)	-	(90,489)
Premises and equipment	(103,165)	39,965	-	(63,200)
Other	-	(66,668)	-	(66,668)
Total deferred tax liabilities	**(156,281)**	**(101,434)**	**14,702**	**(243,013)**
Net deferred tax assets (liabilities)	**(466)**	**(15,339)**	**14,702**	**29,575**
including:				
Deferred tax assets	-	21,643	14,702	36,345
Deferred income tax liabilities	(466)	(6,304)	-	(6,770)

(in thousands of Russian Roubles)

22 Income Taxes (Continued)

An analysis of movements in deferred tax balances during 2017 is provided in the table below (excluding unrecognized tax loss carry forwards):

	At 1 January 2017	Charged to profit or loss	Charged to other comprehen-sive income	Acquisition of subsidiary	At 31 December 2017
Tax effect of deductible temporary differences					
Receivables and payables	195,149	(44,755)	-	144	150,538
Unearned premium reserve	155,130	(145,488)	-	-	9,642
Financial instruments	-	33,209	(5,112)	-	28,097
Loss provision	119,146	(114,616)	-	-	4,530
Other	139,930	(27,936)	-	-	111,994
	609,355	**(299,586)**	**(5,112)**	**144**	**304,801**
Unrecognised deferred tax assets	(241,398)	92,412	-	-	(148,986)
Gross deferred tax assets	**367,957**	**(207,174)**	**(5,112)**	**144**	**155,815**
Tax effect of taxable temporary differences					
Deferred acquisition costs	(186,427)	133,311	-	-	(53,116)
Financial instruments	(20,749)	20,749	-	-	-
Premises and equipment	(144,984)	41,819	-	-	(103,165)
Total deferred tax liabilities	**(352,160)**	**195,879**	**-**	**-**	**(156,281)**
Net deferred tax assets (liabilities)	**15,797**	**(11,295)**	**(5,112)**	**144**	**(466)**
Including:					
Deferred tax asset	15,797	(10,829)	(5,112)	144	-
Deferred tax liabilities	-	(466)	-	-	(466)

23 Risk Management and Internal Controls

Risk management is fundamental to the insurance business and it is an essential element of the Group's operations. Management considers risk management and risk control to be a significant aspect of the governance and operating process, integrating such functions into the corporate structure on a continuous basis. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits and other internal controls. The risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise these risks.

Risks are managed by the insurers and management companies based on trust management contracts, including financial (credit, market, forex, liquidity and interest rate), insurance and legal risks. Assessment of assumed risk is also a basis for optimal allocation of risk-weighted capital, pricing of transactions and performance measurement. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

23 Risk Management and Internal Controls (Continued)

Insurance risk

The primary insurance activity carried out by the Group assumes the risk of loss from individuals or organizations that are directly subject to the risk. As such, the Group is exposed to the uncertainty surrounding the timing and severity of claims under the insurance contract. Such risks relate to:

- Property insurance comprises both private property insurance and industrial property insurance and indemnifies the policyholder, subject to any limits or excesses, against the loss or damage to their own tangible property.
- Finance insurance under which the Group indemnifies policyholders for losses resulting from business interruption insured events and agricultural losses (e.g. loss of crops).
- Auto-transport insurance which includes fully comprehensive motor insurance (Casco). Under Casco contracts, corporate entities and individuals are reimbursed for any loss of, or damage caused to their vehicles.
- The Group also provides coverage for inwards reinsurance, cargo, marine, liability and a number of other lines of business under which the Group indemnifies the policyholders for the risk of losses.

The Group cedes insurance risk to limit exposure to underwriting losses under various agreements that cover individual and portfolio risks. These reinsurance agreements spread the risk and reduce the effect of losses. The amount of each risk retained depends on the Group's evaluation of the specific risk.

Under the terms of the reinsurance agreements, the reinsurer agrees to reimburse the ceded amount in the event the claim is incurred. However, the Group remains liable to its policyholders with respect to ceded insurance if any reinsurer fails to meet the obligations it assumes.

When selecting a reinsurer the Group considers their relative creditworthiness. The creditworthiness of the reinsurer is assessed from public rating information and from internal investigations.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number of amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria. The Group has the right to re-price the risk or renewal. It also has the ability to impose deductibles and reject fraudulent claims.

The reinsurance arrangements include excess and catastrophe coverage. The Group has a group-wide retention limit. In addition, under the Group reinsurance program, individual business units are permitted to purchase additional reinsurance protection.

23 Risk Management and Internal Controls (Continued)

Financial risk

The financial risk management function within the Group is carried out in respect of credit, market (which includes foreign exchange, interest rate and equity price risks), currency and liquidity risks. The Group's financial risk management strategy is based on the principles of safekeeping, profitability, diversification and liquidity of investments. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

The Board of Directors is responsible for proper functioning of controls relating to risk management, management of key risks, approval of risk management policies and procedures and approval of major transactions.

The day-to-day financial risk management function is carried out primarily by the Risk Management department and Treasury.

The Group manages open positions in financial risk within an investment framework that has been developed to achieve long-term investment returns in excess of the Group obligations under insurance and investment contracts. The principal technique of the investment framework is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to contract holders. For each category of liabilities, a separate portfolio of assets is maintained. The Group's investment framework is integrated with the management of financial risks associated with the other financial assets and liabilities not directly associated with insurance and investment liabilities (in particular borrowings and investments in foreign operations).

Additional financial risk mitigation is imposed by Russian legislation (Directive of Bank of Russia No. 4298-U detailing requirements for types and structure of assets which are admitted for coverage of insurer's equity).

The Risk Management makes consolidated capital and assets forecast to ensure compliance with legislative requirements.

Credit risk

The Group takes on exposure to credit risk which is the risk that counterparty will be unable to pay amounts in full when due. The major credit risk exposure is through settlement accounts and deposits with banks, loans issued and available-for-sale financial instruments which form the majority of investment portfolio. Credit risk management procedures are primarily focused on setting counterparty limits and monitoring of compliance with these limits.

Group counterparty credit limits are updated by the Risk Management department. The internal methodology for setting of limits is based on analysis of counterparties' official financial reports and other non-financial information.

Monitoring of compliance with existing credit limits is performed by the Risk Management department on a monthly basis.

The Group structures its credit risks by placing limits on the amount of risk accepted from individual counterparties and types of debt instrument.

Credit risks are monitored by the Group on a regular basis. The credit risk is managed through regular analysis of the existing counterparties' ability to repay the debt under insurance contracts. The Company analyses receivables arising from insurance operations by maturity dates on an ongoing basis. Premiums collection is analysed by counterparties, territories and insurance types.

To mitigate the credit risk, the group uses a credit risk management policy, which provides for the estimation and identification of the Group's credit risks. Compliance with the policies is subject to monitoring, and information on all risks and non-compliance is reported to the Risk Management department. The policy is subject to regular reviews for relevance and in line with changes in risks.

(in thousands of Russian Roubles)

23 Risk Management and Internal Controls (Continued)

To comply with Russian legislation in terms of ratios for placement of equity and insurance provisions and to get stable and guaranteed income from investments the Group places funds in deposits, cash and cash equivalents with banks, which have proved credit ratings by leading Russian and foreign rating agencies. When placing funds in securities, deposits, cash and cash equivalents with banks, the Company considers an international credit rating of a bank (issuer).

Reinsurance contracts are signed with counterparties with good credit ratings, and in order to avoid risk concentration, the Company uses indications of limits for counterparties that are set by the Board of Directors on an annual basis and revised on a regular basis. At each reporting date, the management analysis reinsurers' solvency and amends the strategy for signing reinsurance contracts by determining the amount of impairment loss provisions.

Credit risks applicable to receivables arising from outstanding premiums will remain over the entire payment deferral period specified in the insurance contract, until the payments under the insurance contract are made or the contract is terminated.

The Group's maximum exposure to credit risk is presented in the following table. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

	2018	**2017**
Cash and cash equivalents - correspondent accounts with banks	243,284	659,060
Deposits with banks	2,961,052	1,470,229
Promissory notes and loans issued	214,127	807,476
Available-for-sale financial instruments	3,444,954	3,556,719
Receivables	2,000,443	1,851,603
Reinsurers' share of loss provision	2,512,455	3,354,987
Total maximum exposure to credit risk	**11,376,315**	**11,700,074**

The following table details geographical concentration of credit risk as at 31 December 2018:

	Russia	**Europe**	**CIS**	**Other**	**Total**
Cash and cash equivalents - correspondent accounts with banks	243,284	-	-	-	243,284
Deposits with banks	2,961,052	-	-	-	2,961,052
Promissory notes and loans issued	214,127	-	-	-	214,127
Available-for-sale financial instruments	3,444,954	-	-	-	3,444,954
Receivables	853,750	1,117,615	4,074	25,004	2,000,443
Reinsurers' share of loss provision	135,414	2,341,132	-	35,909	2,512,455
Total maximum exposure to credit risk	**7,852,581**	**3,458,747**	**4,074**	**60,913**	**11,376,315**

The following table details geographical concentration of credit risk as at 31 December 2017:

	Russia	**Europe**	**CIS**	**Other**	**Total**
Cash and cash equivalents - correspondent accounts with banks	659,060	-	-	-	659,060
Deposits with banks	1,470,229	-	-	-	1,470,229
Promissory notes and loans issued	807,476	-	-	-	807,476
Available-for-sale financial instruments	3,556,719	-	-	-	3,556,719
Receivables	959,062	885,920	5,127	1,494	1,851,603
Reinsurers' share of loss provision	127,661	3,226,682	644	-	3,354,987
Total maximum exposure to credit risk	**7,580,207**	**4,112,602**	**5,771**	**1,494**	**11,700,074**

(in thousands of Russian Roubles)

23 Risk Management and Internal Controls (Continued)

Financial assets that are neither past due nor impaired are graded according to the current international credit rating they have been awarded by an internationally regarded rating agencies. The Group uses the rating scale provided by Standard&Poors and Fitch depending on the availability of the rating for the respective counterparties. The following table details the credit ratings of financial assets held by the Group as at 31 December 2018:

	AA	A	BBB	BB	Below BB	Unrated	Total
Cash and cash equivalents - correspondent accounts with banks	-	-	65,407	139,154	-	38,723	243,284
Deposits with banks	-	-	525,583	1,523,952	-	911,517	2,961,052
Promissory notes and loans issued	-	-	-	-	-	214,127	214,127
Available-for-sale financial instruments	-	-	3,154,079	191,885	-	98,990	3,444,954
Receivables	60,431	9,728	44,789	50,264	9,285	1,825,946	2,000,443
Reinsurers’ share of loss provision	1,431,289	436,360	19,236	59	78	625,433	2,512,455
Total	**1,491,720**	**446,088**	**3,809,094**	**1,905,314**	**9,363**	**3,714,736**	**11,376,315**

The following table details the credit ratings of financial assets held by the Group as at 31 December 2017:

	AA	A	BBB	BB	Below BB	Unrated	Total
Cash and cash equivalents - correspondent accounts with banks	-	-	10,823	613,540	-	34,697	659,060
Deposits with banks	-	-	-	1,018,493	-	451,736	1,470,229
Promissory notes and loans issued	-	-	-	-	-	807,476	807,476
Available-for-sale financial instruments	-	-	3,197,151	215,770	-	143,798	3,556,719
Receivables	192,806	1,556	16,435	68,732	6,129	1,565,945	1,851,603
Reinsurers’ share of loss provision	1,949,878	143,217	313,415	68,528	-	879,949	3,354,987
Total	**2,142,684**	**144,773**	**3,537,824**	**1,985,063**	**6,129**	**3,883,601**	**11,700,074**

Liquidity risk

Liquidity risk is defined as the risk arising when the maturity of assets and liabilities do not match. The Group is exposed to daily calls on its available cash resources from claims to be paid. The Group’s policy is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due, without risking damage to reputation or incurring unacceptable losses (e.g. investment losses due to urgent withdrawal of assets from investment portfolio).

Liquidity risk management is the function of the Treasury Department. In order to ensure availability of sufficient funds for timely settlement of payables, the Treasury Department performs short term cash flow planning. To ensure maximum predictability of cash outflows, payments require cash reservation in advance. Also, the Group mitigates liquidity risk by fixing a statistically determined optimal share of cash in the investment portfolio as well as by diversifying deposits by maturity dates.

The Group pursues a conservative investment strategy. The investments are mainly represented by deposits in the major Russian banks, corporate bonds issued by the Russian companies, government and municipal bonds. For ensuring additional liquidity reserve a csome cash is placed on current accounts.

The liquidity position is monitored and regular liquidity testing, under a variety of scenarios covering both normal and more severe market conditions, is performed by the Group. Liquidity analysis is presented further within analysis of interest rate risk.

23 Risk Management and Internal Controls (Continued)

Market risk

Management takes on exposure to market risks arising from open positions in interest-bearing instruments, which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach may fail to prevent losses outside of these limits in the event of more significant market movements.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk assumed.

Market risk management includes managing the portfolios of securities and controlling open currency positions and interest rates. For this purpose the Risk Management Department sets limits for open positions and other loss limits when managing securities portfolio. Market risk limits are based on cost analysis, risk exposure, scenario analysis, stress tests and regulatory requirements of the Bank of Russia.

In carrying out market risk evaluation, the focus should be placed on quantitative evaluation; i.e. evaluation of probable losses from appropriate instruments used during a particular investment horizon. It allows to reflect risk on each position and portfolio risk in general and to arrange classification by risk level. The Group assesses market risk both by elements and cumulatively, determining concentration of the market risk and diversification effect.

Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Group is exposed to interest rate risk, principally through fixed rate financial instruments, the amounts and terms of which differ from the amounts and terms of fixed rate insurance contracts.

The objective of interest risk management is to reduce the impact of the changes in interest rate on financial performance. In order to minimize this risk limits are set on the level of interest rate fluctuations that may be accepted which are monitored on a regular basis.

For risk management purposes, the Risk Management Department establishes minimal rates for placing funds with counterparty banks, minimal profitability of investments in securities and limitations on early active operations, that is, any operations that are characterised by the highest interest rate risk. A scenario analysis is used to estimate the interest rate risk.

The analysis of insurance and financial assets and liabilities as at 31 December 2018 by their remaining contractual maturity is presented in the table below. The undiscounted cash flows from the financial liabilities on the basis of their earliest possible contractual maturity do not vary materially from this analysis.

(in thousands of Russian Roubles)

23 Risk Management and Internal Controls (Continued)

	Less than 1 month	From 1 month to 1 year	From 1 to 5 years	Over 5 years	No stated maturity	Total
Assets						
Cash and cash equivalents	243,993	-	-	-	-	243,993
Deposits with banks	1,903,972	1,002,769	-	54,311	-	2,961,052
Promissory notes and loans issued	-	214,127	-	-	-	214,127
Available-for-sale financial instruments	84,549	1,436,055	1,322,698	601,652	-	3,444,954
Receivables	1,548,717	382,556	69,123	47	-	2,000,443
Reinsurers' share of loss provision	-	2,512,455	-	-	-	2,512,455
Other assets	-	21,708	-	-	-	21,708
Investments in associates	-	-	-	-	1,922	1,922
Total assets	**3,781,231**	**5,569,670**	**1,391,821**	**656,010**	**1,922**	**11,400,654**
Liabilities						
Loss provision	-	4,379,066	-	-	-	4,379,066
Payables	1,804,315	1,479,902	184,091	39,132	-	3,507,440
Other liabilities	-	167,780	-	-	-	167,780
Total liabilities	**1,804,315**	**6,026,748**	**184,091**	**39,132**	**-**	**8,054,286**
Net liquidity gap	**1,976,916**	**(457,078)**	**1,207,730**	**616,878**	**1,922**	**3,346,368**
Cumulative liquidity gap	**1,976,916**	**1,519,838**	**2,727,568**	**3,344,446**	**3,346,368**	

The following tables show insurance and financial assets and liabilities as at 31 December 2017 by disclosing their remaining contractual maturity. The undiscounted cash flows from the financial liabilities on the basis of their earliest possible contractual maturity do not vary materially from this analysis.

	Less than 1 month	From 1 month to 1 year	From 1 to 5 years	Over 5 years	No maturity	Total
Assets						
Cash and cash equivalents	660,666	-	-	-	-	660,666
Deposits with banks	62,181	1,408,048	-	-	-	1,470,229
Promissory notes and loans issued	-	807,476	-	-	-	807,476
Available-for-sale financial instruments	-	492,112	2,386,101	678,506	-	3,556,719
Receivables	77,402	1,725,829	48,000	372	-	1,851,603
Reinsurers' share of loss provision	-	3,354,987	-	-	-	3,354,987
Other assets	-	144,440	-	-	-	144,440
Investments in associates	-	-	-	-	1,922	1,922
Total assets	**800,249**	**7,932,892**	**2,434,101**	**678,878**	**1,922**	**11,848,042**
Liabilities						
Loss provision	-	5,580,973	-	-	-	5,580,973
Payables	219,001	2,226,313	671,837	126,405	-	3,243,556
Other liabilities	-	611,463	-	-	-	611,463
Total liabilities	**219,001**	**8,418,749**	**671,837**	**126,405**	**0**	**9,435,992**
Net liquidity gap	**581,248**	**(485,857)**	**1,762,264**	**552,473**	**1,922**	**2,412,050**
Cumulative liquidity gap	**581,248**	**95,391**	**1,857,655**	**2,410,128**	**2,412,050**	**-**

The following tables present the sensitivity of the Group profit before tax and equity to fair value interest rate risk, which has been determined based on reasonably possible changes in the risk variable. The level of these changes is determined by Management.

	2018		**2017**	
	-1.0%	**1.0%**	**-1.0%**	**1.0%**
Available-for-sale financial instruments	27,199	(27,199)	28,215	(28,215)
Net impact on equity	21,759	(21,759)	22,572	(22,572)

The following table presents the sensitivity of the Group's profit after tax and equity to repricing risk of interest rates of deposits and promissory notes.

(in thousands of Russian Roubles)

23 Risk Management and Internal Controls (Continued)

	2018	2017
Parallel shift by 1% towards interest rates growth	22,285	11,272
Parallel shift by 1% towards interest rates decline	(22 285)	(11 272)

Price risk for equity instruments is the risk of changes in value of an equity financial instrument as a result of changes in market prices regardless of whether they have been caused by factors specific for a particular financial instrument or factors influencing all instruments traded in the market. Price risk arises when the Group takes a long or short position in an equity financial instrument.

The following tables detail the Group's sensitivity to a 10% increase and decrease in market price:

	2018		2017	
	-10%	10%	-10%	10%
Available-for-sale financial instruments	(9,899)	9,899	(14,380)	14,380
Net impact on equity	(7,919)	7,919	(11,504)	11,504

The above table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that due to non-linearity of the above-mentioned sensitivity the results cannot be either interpolated or extrapolated. Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted with any certainty. Yet another limitation is the assumption that all interest rates, exchange rates or market prices move in an identical fashion.

The financial position of the Group may vary at the time that any actual market movement occurs. For example, the Group's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action.

Currency risk is a risk that the value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of exchange rates on its financial position and cash flows.

Asset Liability Matching methodology is used by the Group and provides appropriate currency structure to mitigate currency risk. This methodology allows the Group to calculate and manage the currency structure of the investment portfolio to minimize currency risk. The Group manages this currency risk by investing into US dollar and EURO instruments and maintaining US dollar cash balances to the extent allowed under Russian insurance regulations.

The structure of the Group's assets and liabilities by currency at 31 December 2018 may be presented as follows:

	Russian Roubles	US Dollar	Euros	Other currencies	Total
Assets					
Cash and cash equivalents	105,530	51,613	86,850	-	243,993
Deposits with banks	2,882,905	78,135	12	-	2,961,052
Promissory notes and loans issued	214,127	-	-	-	214,127
Available-for-sale financial instruments	3,402,394	27,609	14,951	-	3,444,954
Receivables	1,723,769	156,081	119,448	1,145	2,000,443
Reinsurers' share of loss provision	1,126,192	1,147,942	236,305	2,016	2,512,455
Investments in associates	1,922	-	-	-	1,922
Total assets	**9,456,839**	**1,461,380**	**457,566**	**3,161**	**11,378,946**
Liabilities					
Loss provision	2,657,889	1,393,909	323,875	3,393	4,379,066
Payables	2,873,911	105,824	527,289	416	3,507,440
Other liabilities	167,780	-	-	-	167,780
Total liabilities	**5,699,580**	**1,499,733**	**851,164**	**3,809**	**8,054,286**
Net position	**3,757,259**	**(38,353)**	**(393,598)**	**(648)**	**3,324,660**

(in thousands of Russian Roubles)

23 Risk Management and Internal Controls (Continued)

The structure of the Group's assets and liabilities by currency at 31 December 2017 may be presented as follows:

	Russian Roubles	US Dollar	Euros	Other currencies	Total
Assets					
Cash and cash equivalents	505,529	101,464	53,673	-	660,666
Deposits with banks	1,468,735	1,494	-	-	1,470,229
Promissory notes and loans issued	807,476	-	-	-	807,476
Available-for-sale financial instruments	2,764,120	394,690	397,909	-	3,556,719
Receivables	1,592,737	201,215	57,485	166	1,851,603
Reinsurers' share of loss provision	1,867,518	1,131,104	356,365	-	3,354,987
Investments in associates	1,922	-	-	-	1,922
Total assets	**9,008,037**	**1,829,967**	**865,432**	**166**	**11,703,602**
Liabilities					
Loss provision	3,753,352	1,425,925	399,593	2,103	5,580,973
Payables	2,055,929	174,436	1,012,879	312	3,243,556
Other liabilities	611,463	-	-	-	611,463
Total liabilities	**6,420,744**	**1,600,361**	**1,412,472**	**2,415**	**9,435,992**
Net position	**2,587,293**	**229,606**	**(547,040)**	**(2,249)**	**2,267,610**

The following tables detail the Group's sensitivity to a 20% increase in the USD and EUR against the RR. The sensitivity analysis includes exclusively amounts in foreign currency available as at the end of a period for whose conversion the management uses rates changed by 20% compared to current rates. 20% is the sensitivity rate that represents management's assessment of reasonably possible change in foreign currency exchange rates.

	2018		**2017**	
	Impact on profit or loss before tax	**Impact on equity**	**Impact on profit or loss before tax**	**Impact on equity**
20% increase in US dollar to Russian rouble rate	7,156	5,725	(6,145)	(4,916)
20% increase in Euro to Russian rouble rate	65,645	52,516	(253)	(202)

A strengthening of the RR against the above currencies at 31 December 2018 and 2017 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

The above sensitivity demonstrates the effect of change in one of the key factors (foreign exchange rate), while other factors remain unchanged. In reality, there is correlation between key economic factors as well as the Group actively manages currency structure of assets and liabilities. Management action could include selling investments, changing investment portfolio allocation and other protective actions.

Corporate governance framework. The Company is established as a joint stock company in accordance with Russian legislation. The supreme governing body of the Company is the general shareholders' meeting that is called for annual or extraordinary meetings. The general shareholders' meeting makes strategic decisions on the Company's operations.

The general shareholders' meeting elects the Board of Directors. The Board of Directors is responsible for overall governance of the Company's activities.

Russian legislation and the charter of the Company establish lists of decisions that are exclusively approved by the general shareholders' meeting and that are approved by the Board of Directors.

23 Risk Management and Internal Controls (Continued)

General activities of the Company are managed by the sole executive body of the Company – General Director and collective executive body of the Company – Management Board. The Board of Directors elects the General director and members of Management Board. The executive bodies of the Company are responsible for implementation of decisions of the general shareholders' meeting and the Board of Directors of the Company. Executive bodies of the Company report to the Board of Directors of the Company and to the general shareholders' meeting.

Internal control policies and procedures

The main objectives of the Group's internal controls are to ensure effective business activities when performing insurance and other operations; effective asset management, including safety of assets; effective management of equity (capital), insurance provisions and other liabilities, effective risk management; compliance with legislation and industry standards; as well as to ensure fair, complete and objective financial statements; control over compliance by the Group, its management bodies, structural units and employees with ethical standards, principles of professionalism and expertise and with other requirements of Russian legislation.

The Board of Directors and the Management Board have responsibility for the development, implementation and maintaining of internal controls in the Group that are commensurate with the scale and nature of operations.

The purpose of internal controls is to ensure:

- proper and comprehensive risk assessment and management;
- proper operation of business and accounting and financial reporting functions, including proper authorization, processing and recording of transactions;
- completeness, accuracy and timeliness of accounting records, managerial information, regulatory reports, etc.;
- reliability of IT-systems, data and systems integrity and protection;
- prevention of fraudulent or illegal activities, including misappropriation of assets;
- compliance with laws and regulations.

Management is responsible for identifying and assessing risks, designing controls and monitoring their effectiveness. Management monitors the effectiveness of the Group's internal controls and periodically implements additional controls or modifies existing controls as necessary.

The Group developed a system of standards, policies and procedures to ensure effective operations and compliance with relevant legal and regulatory requirements, including the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the recording, reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced by the Company, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- risk mitigation, including reinsurance where this is effective.

23 Risk Management and Internal Controls (Continued)

Compliance with the Group standards is supported by a program of periodic reviews undertaken by the Internal Audit function. The Internal Audit function is independent from management and reports directly to the Board of Directors. The results of Internal Audit reviews are discussed with relevant insurance and business process managers, with summaries submitted to the Audit Committee and Board of Directors and senior management of the Company.

Legislation of the Russian Federation, including the Law dated 27 November 1992 No. 4015-1 "On organisation of insurance business in the Russian Federation", establishes the requirements for professional qualifications, reputation and other requirements to the members of the Board of Directors, the Management Board, the Head of the internal audit function and other key management personnel. All members of the Company's governing and management bodies comply with these requirements.

Management believes that the Group complies with the regulatory requirements related to internal control systems, including requirements related to the internal audit function, and that Group's internal control systems are appropriate for the scale, nature and complexity of operations.

It monitors and reviews relevance of the internal controls on an ongoing basis. The Group takes necessary measures to improve internal controls to take into account changing internal and external factors that have an impact on the its operations.

24 Management of Capital

The main objective of the Company's capital management is to comply with the regulatory requirements of the Russian Federation legislation in respect of financial stability and solvency of the Company and its ability to continue carrying out its financial and economic activity in accordance with going concern principle.

In order to comply with regulatory requirements in respect of capital and insurance reserves allocation the Company implements an investment policy which imposes certain restrictions on the structure of investment assets. The Company monitors application of investment policy on a daily basis. The Company assesses capital adequacy level on a regular basis to comply with the minimum paid share capital requirements and regulatory solvency margin level. The Company monitors compliance with the stated above requirements on a monthly basis. The regular monitoring of capital adequacy enables the Company to forecast a need for additional investments in capital.

The legal requirements include:

- compliance with Federal Law № 208-FZ dated 26 December 1995 "On Joint Stock Companies";
- compliance with the requirements to the minimal share capital set by Russian Law No. 4015-1 "On Organisation of Insurance Business in the Russian Federation" dated 27 November 1992;
- compliance with the assets structure requirements used to cover the insurance provisions (established by Order of the Central Bank of Russia on 22 February 2017 №4297-U "On approval of the requirements for the composition and structure of assets used to cover the insurance provisions");
- maintaining the composition and structure of assets accepted as coverage of own equity in accordance with Guidance of the Central Bank of Russia No. 4298-U "On Investing Insurer's Equity (Capital) and List of Assets Allowed for Investment") dated 22 February 2017;
- compliance with the level of solvency margin set by Instruction of the Russian Central Bank No. 3743-U "On Calculation by Insurance Organisation of the Regulatory Ratio of Equity (Capital) and Accepted Liabilities" dated 28 July 2015.

As at 31 December 2018 and 2017, the Company complied with the requirements set by the Insurance Regulatory Bodies of the Russian Federation in respect of solvency margin level, placements of insurance reserves funds and structure of assets used for coverage of equity.

(in thousands of Russian Roubles)

25 Contingencies and Commitments

Legal proceedings

From time to time, in the ordinary course of business, the Group is subject to legal actions and complaints. On the basis of own estimates and internal and external professional advice, Management is of the opinion that no material losses will be incurred, which are not already recorded as a provision in these consolidated financial statements.

Tax legislation

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

Transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RR 1 billion in 2014 and thereon).

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015, changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, taxation of controlled foreign companies, tax residency rules, etc. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation and practice of its application is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

All these circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the tax authorities and courts, especially due to reform of the supreme courts that are resolving tax disputes, could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

	2018	2017
Less than 1 year	22,349	50,567
From 1 to 5 years	8,803	48,879
More than 5 years	52,586	54,634
Total operating lease commitments	**83,738**	**154,080**

(in thousands of Russian Roubles)

26 Presentation of Financial Instruments by Measurement Category

For the purposes of measurement, IAS 39 “Financial Instruments: Recognition and Measurement”, the Group classifies its financial assets into the following categories: (a) available-for-sale financial assets and (b) financial assets at fair value through profit or loss (“FVTPL”), (c) placements and accounts receivable. In addition, there is a separate category of assets and liabilities arising from insurance contracts.

The following table provides a reconciliation of financial assets with measurement categories at 31 December 2018.

	AFS assets	Placements and accounts receivable	Assets arising from insurance contracts	Total
Assets				
Cash and cash equivalents	-	243,993	-	243,993
Deposits with banks	-	2,961,052	-	2,961,052
Promissory notes and loans issued	-	214,127	-	214,127
Available-for-sale financial instruments	3,444,954	-	-	3,444,954
Receivables	-	-	2,000,443	2,000,443
Other financial assets	-	21,708	-	21,708
Reinsurers’ share of insurance provisions	-	-	2,512,455	2,512,455
Total	**3,444,954**	**3,440,880**	**4,512,898**	**11,398,732**

The following table provides a reconciliation of financial assets with these measurement categories as of 31 December 2017:

	AFS assets	Placements and accounts receivable	Assets arising from insurance contracts	Total
Assets				
Cash and cash equivalents	-	660,666	-	660,666
Deposits with banks	-	1,470,229	-	1,470,229
Promissory notes and loans issued	-	807,476	-	-
Available-for-sale financial instruments	3,556,719	-	-	3,556,719
Receivables	-	-	1,851,603	1,851,603
Other financial assets	-	144,440	-	144,440
Reinsurers’ share of insurance provisions	-	-	3,354,987	3,354,987
Total	**3,556,719**	**3,082,811**	**5,206,590**	**11,038,644**

27 Fair value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows: (i) Level 1 are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) Level 2 measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) Level 3 measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(in thousands of Russian Roubles)

27 Fair Value of Financial Instruments (Continued)

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The level in the fair value hierarchy into which the recurring fair value measurements are categorised are as follows:

	31 December 2018			31 December 2017		
	Level 1	**Level 3**	**Total**	**Level 1**	**Level 3**	**Total**
Available-for-sale financial instruments	3,345,961	98,993	**3,444,954**	3,412,919	143,800	**3,556,719**
Other assets measured at fair value	8,290	-	**8,290**	130,804	-	**130,804**
Payables measured at fair value	(5,628)	-	**(5,628)**	(90,204)	-	**(90,204)**

Other assets and payables measured at fair value relate to the remuneration of senior management (Note 28).

Fair values of available-for-sale financial instruments that are traded in active markets and other assets and payables measured at fair value are based on quoted market prices or dealer price quotations.

Movements in assets measured at fair value in Level 3 of the fair value hierarchy for the year ended 31 December 2018 and 2017 are as follows:

	2018	**2017**
As at 1 January	**143,800**	**149,905**
(Decrease) increase in fair value recognized in equity	153	(6,105)
Net losses recognized in profit or loss	(44,960)	-
As at 31 December	**98,993**	**143,800**

As at 31 December 2018, available-for-sale financial instruments categorized into Level 3 include investments in one mutual investment fund totalling RR 98,993 thousand (31 December 2017: RR 143,800 thousand), whose assets primarily comprise of investments in land plots and banks' deposits. The fair value of mutual investment fund units is estimated based on a combination of information from third parties and proprietary models which use both observable and non-observable data.

(b) Assets and liabilities not measured at fair value but for which fair value is disclosed

As at 31 December 2018 and 31 December 2017, the Group's financial assets and liabilities not subject to recurring fair value measurements were measured at amortised cost. The fair value of such financial assets and liabilities approximates their carrying value due to their short-term nature.

28 Related Party Transactions

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The majority shareholder of the Group is Allianz New Europe Holding GMBH, which is ultimately owned and controlled by Allianz SE. These companies are further referred to as "Parent company". Other related parties comprise associates and subsidiaries of Allianz SE group, except for Allianz New Europe Holding GMBH.

The Group's key management personnel includes members of the Board of Directors and the Chief Executive Officer. All payments associated with key management personnel in 2018 and 2017 were made in accordance with the terms of labour contracts signed with each employee, while no other payments and social accruals were made in 2018 and 2017.

(in thousands of Russian Roubles)

28 Related Party Transactions (Continued)

In the normal course of business the Group enters into insurance and reinsurance transactions with its related parties. The terms of all related party transactions are equivalent to those that prevail in arm's length transactions.

Balances at 31 December 2018 and 2017, as well as gain and loss for 2018 and 2017 arising from related party transactions are detailed below:

	2018		2017	
	Parent	Other related parties	Parent	Other related parties
Assets and liabilities				
Promissory notes and loans issued	-	214,121	-	807,117
Receivables	68,468	616,523	82,799	527,206
Reinsurers' share of provision for unearned premiums	2,752	561,751	2,601	761,629
Reinsurers' share of loss provision	42,788	952,694	72,881	1,215,075
Unearned premium reserve	(303)	(42,442)	(774)	(43,825)
Deferred acquisition costs	61	11,667	155	10,986
Reinsurers' share of deferred acquisition costs	(4)	(119,896)	(442)	(177,832)
Loss provision	(4,942)	(7,506)	(5,122)	(11,724)
Payables	(42,853)	(527,854)	(13,923)	(862,443)

	2018		2017	
	Parent	Other subsidiaries of Parent company	Parent	Other subsidiaries of Parent company
Income and expenses				
Gross premiums written	-	131,693	-	157,839
Premiums ceded	(26,997)	(1,757,130)	(47,868)	(2,062,911)
Gross claims paid	(14)	(9,682)	-	(23,807)
Reinsurers' share of claims paid	42,916	272,564	427,359	677,230
Claims handling expenses	-	(11,679)	(63)	(27,106)
Acquisition costs	-	(35,579)	-	(43,550)
Commission income on reinsurance outwards	-	335,163	2,930	472,659
Insurance operating expenses	(19,686)	(33,921)	(19,726)	(59,370)
Interest income	-	14,121	-	7,117

In 2017, the Group's subsidiary IC JSC "Medexpress" bought from Allianz Life Insurance Company, Ltd., a party under common control, shares of OJSC "My Clinic" and legally merged with it.

In 2017, the Group paid dividends to the shareholder Allianz New Europe Holding GMBH in the amount of RR 2,999,479 thousand.

In 2018 the total remuneration of the key management and discretionary compensation amounts to RR 95,553 thousand, including insurance contributions of RR 8,889 thousand (2017: RR 131,959 thousand, including insurance contributions of RR 2,881 thousand).

Remuneration of senior management includes grants of restricted stock units ("RSU"), which obligate the Group to pay in cash the average market price of shares of the Group's parent, Allianz SE, or to issue one Allianz SE share, or other equivalent equity instrument, for each unit granted to the senior management upon expiration of the vesting period of 5 years. RSU's are virtual stocks without dividend payments. The award in the form of RSU shares is recognised as paid in cash, since the Group expects these liabilities to be settled by cash payments. The Group accrues the amount of expected future payment of the fair value of RSU shares during the entire effective period of such shares. As at 31December 2018, accrued liability on RSU's amounted to RR 5,628 thousand (2017: RR 90,204 thousand) and presented within payables. When issuing RSU's, the Group also purchases virtual stocks from the parent, Allianz SE, which are accounted for at fair value through profit or loss and are presented within other assets (Note 27).

(in thousands of Russian Roubles)

29 Non-Controlling Interest

Non-con-trolling interest is represented by the Group's interest in Medexpress IC JSC.

	Place of business (and country of incorporation, unless it is the same as the place of business)	Proportion of non-contro-lling interest	Profit or loss attribu-table to non-controlling interest	Cumulative non-controlling interest in the subsidiary
Year ended 31 December 2018				
Medexpress IC JSC	St Petersburg	58%	(3,357)	291,915
Year ended 31 December 2017				
Medexpress IC JSC	St Petersburg	58%	(8,492)	299,684

30 Principal Subsidiaries and Associates

The following subsidiaries of the Group are included into these consolidated financial statements as at 31 December 2018 and 2017:

Name of company	Country of incorporation	Interest held as at 31 December 2018	2017	Principal activity
Allianz Ukraine Life	Ukraine	96%	96%	Insurance activities
Medexpress IC JSC	Russia	58%	58%	Insurance activities
Medexpress Service (Allianz Eurasia Medicina) LLC	Russia	58%	58%	Medical services
Progress-Med LLC	Russia	100%	100%	Medical services
Risk Audit LLC	Russia	100%	100%	Consulting services

The following associates of the Group are accounted for by the equity method of accounting in these consolidated financial statements as at 31 December 2018 and 2017:

Name of company	Country of incorporation	Interest held as at 31 December 2018	2017	Principal activity
Povolzhskiy Leasing Center LLC	Russia	20%	20%	Financial lease

31 Events After the End of the Reporting Period

On 19 February 2019, Philip Gronemeyer was appointed on position of Chief Executive Officer of JSC IC Allianz.